The MAGAZINE of WALL STREET

Vol. 23 March 29, 1919 No. 12

THE OUTLOOK

Heavy Selling by Large Holders of Industrials—Effect of the New Steel Prices—Foreign Exchange Situation—Effect on Our Export Trade—Market Prospect

AVERAGE prices for the whole market are now within about a point of the highest figure reached on this movement, and about three points below the top of the "peace boom" of last November. Bond prices have not sympathized with the advance in stocks. Industrial bond prices have been practically stationary for the last five months. Railway and public utility bonds average three to five points below the prices of November, and have been nearly stationary during the present bull movement.

The upward swing has, in fact, been practically confined to industrial stocks, which have reached a level about a point above that of last fall. Railroad stocks at their recent high had risen only about four points from the low prices of January. The movement has been of a speculative rather than an investment character.

DISTRIBUTION OF INDUSTRIALS

WHEN the public buys heavily and large investors take the opportunity to turn their stocks into money, it is customary to speak of the transfer as a period of distribution. There can be little doubt, we believe, that the present is such a period in many of the industrial issues.

Large interests have had little opportunity, and perhaps little desire, to sell their railroad stocks at these prices. The coppers, also, as a class, have advanced but little, since reports from that trade have been so uniformly discouraging that the public has preferred to buy other issues. On the contrary, many shrewd investors are accumulating the coppers at favorable opportunities, on the theory that the outlook and sentiment in that trade are about as bad as they can well get, so that any important change must be for the better. But in many sections of the industrial list the eager public appetite for stocks is being supplied from the strong boxes of the more conservative class of investors.

The distinguishing characteristic of the rise has been an effort to discount in advance a resumption of trade activity which was looked upon as practically assured. But there's many a slip, and the best laid plans "gang aft agley."

The backbone of what we are accustomed to call prosperity lies in activity in construction lines. Demands for current consumption alone are not sufficient. This constructive activity will come some time, certainly. The whole question is, When? And those investors who are now turning their industrial stocks into money believe that, as often happens, the public is in too much of a hurry and has rushed prices up faster than the progress of business readjustment warrants.

It is true that the public demand has been greater than many of these large investors expected, so that they have sold too soon—which was the way in which one of the Rothschilds is reported to have said he made his fortune. But in general the supply of stocks has increased as prices reached higher levels.

THE NEW STEEL PRICES

THE new scale of steel prices averages about 12% lower than the schedule previously in force. On finished steel products the cut is about $7 a ton. With the same labor costs as in 1918, most of the steel companies would have to operate above 80% capacity to make satisfactory profits on these prices.

Orders have recently been coming at a rate of only 20% to 25% on capacity, but this has been largely due to the fact that everybody knew a price cut was coming, so that buyers held back their orders wherever possible. Judge Gary announces that "It is expected that prices during 1919 will not be any lower," but it is obvious that this depends on how much steel can be sold at these prices. They are not Government fixed prices, but simply prices agreed upon as fair under present conditions. Future prices will have to depend upon future conditions, whatever present expectations may be.

The new prices will unquestionably bring forward a considerable volume of buying, as stocks of steel in consumers' hands are generally small and buyers have held back waiting for the prospect of price stability. The automobile companies, for example, will be buyers, since a large demand for cars became banked up during the war. The railroads, on the other hand, are in a poor condition to buy heavily because of scarcity of funds, and with their present relatively light business they are not seriously in need of steel products in any large volume. But the Government could place rail orders for future needs, in the faith that Congress will eventually appropriate the necessary funds. Whether this will be done has not yet been announced.

From a broader point of view, the extent of the demand for steel must depend upon the resumption of new construction in all lines upon a liberal scale, and that is not yet in sight, nor is capital for the purpose likely to be in sight until after the next Liberty Loan is out of the way.

In calculating the profits of the companies on the new prices it should not be forgotten that while wages per man have not declined, wages per ton of product undoubtedly have declined because of the greater efficiency of labor now than during the war. In 1918 Republic Steel's labor cost was over $23 a ton, or more than double its cost before the war; but this cost will not be $23 in 1919, even though wages may remain the same. Just how much labor costs will fall because of higher efficiency cannot now be estimated.

In brief, then, the companies should be able to make normal peace profits on these prices if they can get a normal amount of business—that is, normal in proportion to their present capacity, which is about 40% greater than before the war. But we are inclined to doubt whether they can get that much business during the spring and early summer months.

THE PEG REMOVED FROM FOREIGN EXCHANGE

THE decision of European nations to discontinue supporting the exchange market and allow rates to seek their natural level, has caused sharp declines and a further fall would not be surprising. At last week's low rates $1 at New York is equivalent to $1.04 in England, $1.10 in France and $1.40 in Italy. This means that French buyers of our goods have to pay a 10% premium for them, while American buyers of French goods get nearly 10% discount.

The importance of this disparity in its effect on exports and imports is apparent. America is encouraged to buy more European merchandise and Europe is handicapped in buying American products. Italy, for example, will hardly buy American goods at 40% premium unless under exceptional conditions. But our demand for Italian products will be greatly stimulated by the 30% discount obtainable through exchange rates.

Under normal peace conditions, foreign exchange rates cannot be fixed for any length of time by governmental fiats. It would be rather easier to make water run uphill. To bring rates back to the before-the-war parity, Europe must send us either gold or goods in sufficient quantities to restore the balance, and at present she can do neither. Her gold is all needed to support her big issues of currency and credit and her production

of merchandise is still hampered by the war. The present low exchange rates, however, will tend to correct the situation by gradually increasing her exports of merchandise to us and decreasing her imports from us.

Can America continue to send out large exports under this handicap? In 1918 our exports exceeded imports by the colossal sum of $3,118,887,835, not including supplies sent to our own forces abroad. During January and February of this year our trade balance was still piling up at an even more rapid rate, the excess for the two months having been $763,000,000.

The level of English prices, as shown by commodity index numbers, is a good deal above normal parity with American prices. During the four years 1911-14, the relation between the price-levels of the two countries varied very little. If we assume that relation as a normal parity, we find that English prices have been above parity as follows: 1915, 11%; 1916, 21%; 1917, 18%; 1918, 9%; March 1, 1919, 15%. This difference between American and English prices has been partly due to the discount on foreign exchange and partly to the high rates of ocean transportation. England had to have our goods and had to pay whatever premium was necessary to get them.

If we assume as above that English prices are now about 15% above parity with ours, it is evident that liberal exports are still possible, even though it takes $1.04 in England to equal $1.00 here; but exports to France would apparently be more difficult, and to Italy very small.

It would be absurd to expect that our peace exports could equal those of the war. Europe has to make large interest payments to us where before the war we had to make interest payments to her. During the war she paid for our goods by the simple process of borrowing money from us for the purpose. This can no longer be done to anything like the same extent. Since the armistice Europe's demands on us have been rapidly shifting from manufactured products to raw materials and food stuffs. That tendency will continue and will be even more emphatic after the peace treaty is signed.

In any case we are safe in assuming that, as compared with present levels, our exports will decline and our imports increase. But if either our Government or our private investors are willing to lend abroad, we should still maintain for some time what is called a "favorable" balance of trade.

THE MARKET PROSPECT

THE bond market is likely to continue nearly stationary for some time. Prices are already so low that no further decline of importance is probable, but on the other hand Government, corporation and foreign demands for capital are so large that it will be difficult for the bond market to maintain much improvement. A state of comparative balance is the result.

The complicated difficulties surrounding the railroads are not yet cleared up and we see no reason to expect higher prices for their stocks at present, although a few of the best issues are being well taken by investors whenever they can be bought at any considerable concessions.

The copper stocks are being bought by large interests on declines. While the situation is probably not yet ripe for any sharp advance in these issues, long pull accumulation is in order with a view to eventual prosperity in the industry.

Sharp cuts have been made in the prices of heavy Mexican and Texas oils, which will doubtless reduce the earnings of companies which are large producers of these grades.

In steel, automobile, equipment, and most other industrial stocks there has been heavy selling by large holders, while the public has bought freely. We believe that prices of all these issues have overdiscounted the present situation. Public enthusiasm may carry some of them temporarily higher, but the technical condition has become "over-bought," and we expect a considerable setback before the normal balance can be restored.

Monday, March 24, 1919.

Comments on the Recent Rise

The Lessons to Be Learned Therefrom—Confidence and Its Relation to Security Price Movements—Clearing Decks for the Liberty Loan

By RICHARD D. WYCKOFF

WITHIN the past few weeks the activity in the market has increased until we have again witnessed million share days—the kind that are most talked about. The public, for some reason or other, does not seem to be interested in seven or eight hundred thousand share days, but when transactions pass the magical million mark they begin to think there is something doing.

The accompanying graph shows what an immense expansion, speaking comparatively, has taken place in the dealings since February 1. The shaded area, it will be observed, expanded March 12 to several times that of February 1, although the advance in the price of fifty stocks was less than eight points.

The public was not in the market early in February. On the advance during the latter part of that month they became interested, but the second week in March witnessed a wild scramble to buy stocks. Orders came from over all the country. Brokers reported that the public appeared to have untold money and that their orders were practically all buying orders.

The spectacle of advancing prices is hard to resist. When the public has money and the market is "going up," people hear their friends talk about transactions and profits they have made, the newspapers impressively indicate that the trend is upward, and everybody jumps in and buys. An old Wall Street expression is, "They won't touch 'em at this level, but at ten points higher they'll grab for 'em."

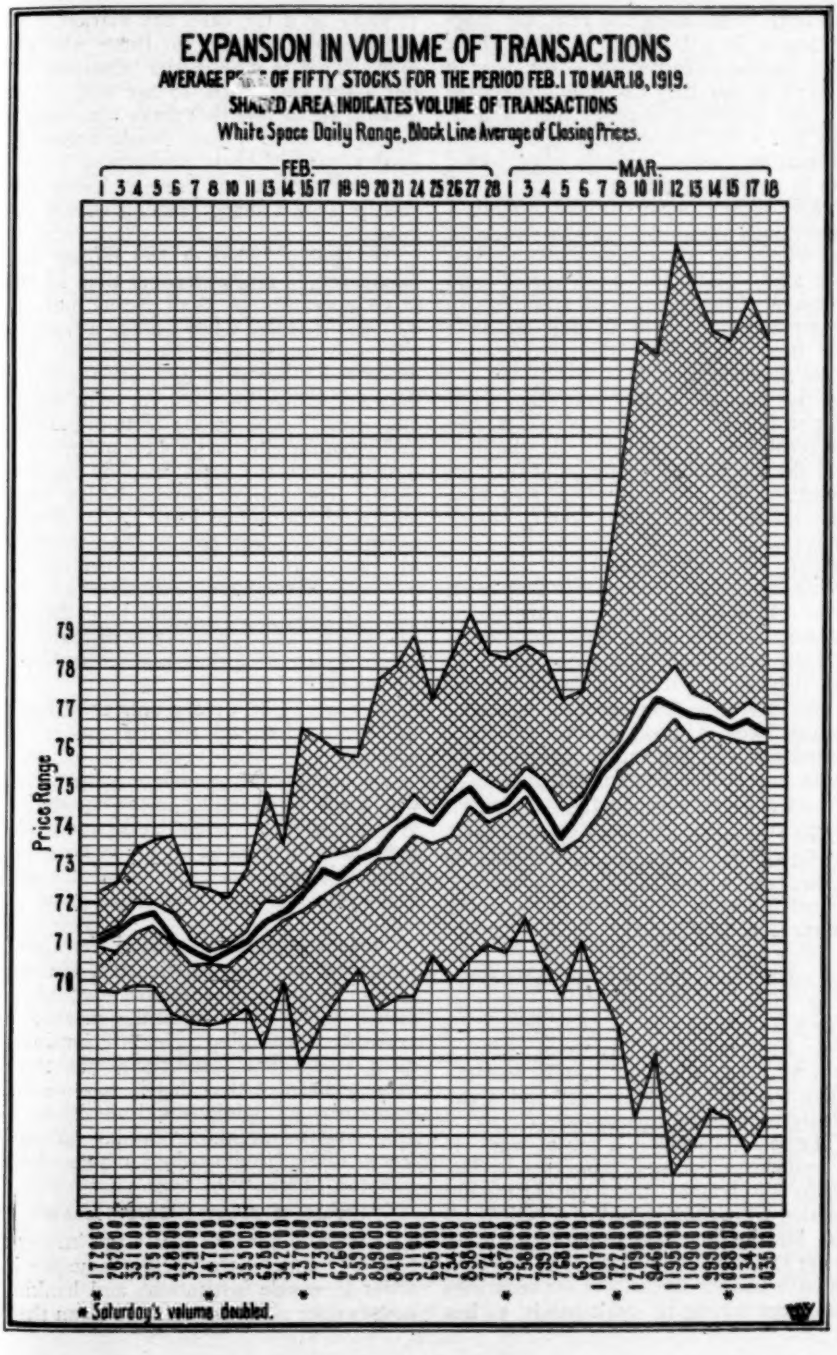
Charles H. Dow, who was one of the first really scientific analysts of the market's action, used to say: "The public rarely sees value until it is pointed out. A group of men, looking far ahead and observing future conditions which will probably induce the public to buy, will start operations by accumulating a line of stocks while the market is weak. As conditions become more favorable, the scarcity of stocks, due to their accumulation, leads to an advance in the price. Finally, when the news becomes generally known, the market price is stimulated, sharp advances occur and the public buys greedily. Then the group of men sell out and realize a substantial profit."

A Reversal of Sentiment

This is what happened during the past several weeks. In January and early February the market was low and dull, and people were rampantly bearish. U. S. Steel was said to be booked for 80 or 70. The railroads were all going into receivers' hands, more or less immediately. Copper was to be given away, because it could not be sold, and as for the industrials, what was the use of their making all this money when they had to pay it out in taxes?

But there were a comparatively few wise ones who were not deceived by the surface indications. They realized that those conditions were ideal for accumulating a line of stocks. Some rich men did so; some pools were formed; a few individual investors decided to invest some of their money at what they considered bargain prices. Bears continued to exhaust themselves against the gradually erected stone wall of buying. In brief, the supply of stocks was overcome by the growing demand.

It was not a question of what the Steel Corporation could earn, but whether investors would buy Steel below 90 in sufficient quantity to absorb the sales of those who wanted to liquidate or sell short. Gradually the pressure died out. The Street and the country were full of people who were short and who, having sold to their limit, had no more ammuni-


EXPANSION IN VOLUME OF TRANSACTIONS
AVERAGE PRICE OF FIFTY STOCKS FOR THE PERIOD FEB. 1 TO MAR. 18, 1919.
SHADED AREA INDICATES VOLUME OF TRANSACTIONS
White Space Daily Range, Black Line Average of Closing Prices.
FEB.
1 3 4 5 6 7 8 10 11 13 14 15 17 18 19 20 21 24 25 26 27 28
MAR.
1 3 4 5 6 7 8 10 11 12 13 14 15 17 18
Price Range
79
78
77
76
75
74
73
72
71
70
*172000
282000
331000
375000
448000
329000
*147000
311000
355000
625000
342000
*437000
773000
626000
559000
859000
840000
911000
665000
734000
898000
774000
*387000
758000
795000
768000
651000
1007000
*722000
1209000
946000
1195000
1109000
999000
*1083000
1134000
1035000
* Saturday's volume doubled.

tion left. This being the case, the market began to lift slightly. Then these bears became enforced bulls, for, having no more to sell, they had only one course left, and that was to cover their shorts. This had a further stimulating effect on the market, and attracted other longs, who in turn drew others.

Then people began to say, "Well, I guess things are not so bad as we thought they were—we might have a bull market, after all." That impression spread, and the wave of optimism grew according to the process described in Mr. Selden's very interesting book, the "Psychology of the Stock Market."

A rise in stocks cannot take place without two factors: The first is money, and the second is confidence. At the low level the people had money, but no confidence. The rise gave them this confidence, and they spent their money freely for stocks.

At recent high levels their money—buying power—had greatly decreased, because they had loaded up with stocks. But they were bursting with confidence, in fact, with over-confidence; that is why they were willing to buy anything, at any price, so long as they received the tip "from a good source" or were carried away by the suggestive power of higher and still higher quotations.

Large Interests Liquidate

This tremendous increase in confidence and buying power produced the kind of market on which the large operators, shrewd investors and small but satisfied January and February buyers, could liquidate. And they did. That is why the market has had the appearance of being "filled with stocks" for several days past. The new public, known as weak holders, were struggling with a mass of stocks they had bought and the whole surface of the market had a decidedly undigested appearance.

The stock market is a tug-of-war. It is knowledge versus ignorance. The people who bought stocks during the depression were those who knew their business, but the buyers at recent high prices do not know their business or they would not have bought stocks. When securities pass from strong to weak hands, as has recently been the case, the market is in a dangerous position for those who are long. That is why in the "Outlook" of our issue of March 15 we said: "In general we believe that those who bought stocks at lower prices should accept at least a part of their profits and should take precautions to prevent losing the rest, in case a sharp reaction should develop."

The public, when it has money and confidence, is really stronger than all the large operators in Wall Street put together. It is like a boy leading a horse—the horse is stronger than the boy, and could run away with him, but the horse does not realize his strength, or he would run away. The public is unorganized, and ignorant (by the public I mean every outsider but the man who is reading this). The market has reached a stage where, if the public knew its combined buying power was greater than the selling power of the bears, who are mostly in Wall Street, and not over all the country, this public would take the bit in its teeth and run away with many of these stocks, until they reached unheard of prices.

This would be a very unhealthy thing for the market and for the public. If unchecked it would run into excesses which would only compare with 1901; hence it is a good thing to see liquidation by large operators, pools, banks and banking houses, as well as wise investors, because this acts as a governing force and keeps prices from getting entirely out of balance.

Business conditions have improved somewhat in some particulars, but not so rapidly as the rise in stocks would indicate. We admit that the market is probably discounting a further improvement in business conditions, but there is no guarantee that this is so—we can only form our opinions and modify them according to events from day to day. Very often the market makes false moves. This may be one.

Effect of Next Liberty Loan

It is quite possible that large interests have encouraged the present advance in order to enable institutions and banking houses over all the country to clean their

shelves in preparation for the next Liberty Loan. There is no doubt that a large part of the new loan must be taken by the banks. That will require money, and that is why a great many of the banking institutions have unloaded to the limit—in fact, cleaned house, because they knew they could not use securities but had to have money with which to buy Liberty bonds.

This is a purely patriotic proceeding, and if the market should recede from the present level, which many experienced observers believe it will, those who find themselves stranded with stocks will at least have the satisfaction of having contributed to the sound situation in which the banks find themselves. But there is an important lesson to be learned by those who refused to buy in February, and who loaded up in March. It is that in order to invest or operate safely and profitably, the public must learn to look ahead, see future values, have the courage to buy when prices are low and conditions are discouraging. In brief, the public must learn the business, just as they learn any other business in which they engage.

I could not butt into your business and run it profitably, because I do not know how. Neither can you, without previous experience, expect to operate successfully in the world's most difficult business unless you first learn how.

No one knows when the high point of the 1919 stock market will be reached, or whether perhaps it has been reached, but those who suffer losses by reason of their reckless buying at the top, wherever that happens to be, will far outnumber those who have operated successfully and who will therefore be long of money when bargain time comes around again. Nevertheless, intelligent investors are rapidly increasing in number, though not in the same proportion that the outside, or let us say uninformed speculative public, has expanded in number since they came into possession, through the war, of more money and more marketable or negotiable securities than ever before in the world's history.

March 18th.

THE PUBLIC'S STAKE

THE average person, seemingly, thinks that simply because he owns no public utility securities he is not concerned with the financial condition of these corporations. That is a serious mistake, for the ramifications of the fiscal problems of the public utilities affect, directly or indirectly, every phase of the economic life of the communities they serve.

In June, 1918, substantially all the banks of the country, except private banks, owned $385,000,000 of public utility bonds. Insurance companies, also, are large holders of such bonds. In New York State, alone, the public generally owns securities of electric railways to the amount of $1,282,500,000. And more than $6,000,000,000 is invested in the electric railways of the United States. These figures should be sufficient proof of the fact that direct interest in the welfare of public utility companies is not limited to those who are stockholders in these companies.

Surely the war has taught us that, collectively, the public utilities are national in scope and of incalculable importance to national defense, as well as to national welfare and comfort. Yet, the electric railways, representing an investment of $6,000,000,000, are rapidly going on the rocks—largely because of public ignorance of, and indifference to the true conditions of this great industry.

Up to the present, the electric railway companies have struggled alone with this desperate situation, but the problem is really a public one because the functions performed by these companies are essentially public. It is time for the public, which has reaped the benefits of the service rendered by the electric railways despite unbearable handicaps, to share in solving their problems. It is high time, indeed, that the public realize that when it attacks public utilities, such as the electric railways, or denies them fair treatment, it is attacking and injuring its own interests.—FRANCIS H. SISSON.

A Century of Prices

An Examination of Economic and Financial Conditions as Reflected in Prices, Money Rates, etc., During the Past 100 Years, With a View to Establishing General Principles Which May Aid in Interpreting the Present and Future.

By Ex-Senator THEODORE E. BURTON, Chairman Board of Directors Merchants' National Bank of New York, Author of "Crises and Depressions," etc.; and G. C. SELDEN, Associate Editor of "The Magazine of Wall Street," Author of "The Machinery of Wall Street," etc.

III—What American Commodity Prices Show

AS would naturally be expected, the broad principles affecting the movements of American commodity prices have been the same as those brought out in connection with English prices in the last chapter.

In America as in Europe, great wars have caused rapid advances in prices; after those wars prices have fallen, though not so rapidly as they had previously risen. From 1865 to 1897 the prolonged decline was in large part due to the effect of machinery and improved transportation in cheapening production; increased gold production played an important part in the rise of prices preceding the Civil War and following 1897; the influence of speculation in "boom" periods is plainly visible; and the expansion of currency and credit has had its due effect.

On the other hand, there are marked differences in the degree to which these several factors have entered the situation at different times.

It is impracticable to compile any trustworthy average of American commodity prices previous to 1850. Falkner's Index, it is true, runs back to 1840, but owing to the numerous interpolations and changes necessary in the earlier years it has obvious defects. Since 1850 commodity prices as shown in the accompanying graph afford a reasonably accurate view of the broad trend of prices. During and following the Civil War prices in currency are shown by the dotted line, while the continuous line shows prices in gold, then selling at a considerable premium in currency.

Causes of War Prices

In this way we get a fairly accurate measure of the effect of currency inflation in the Civil War, but it is impossible to make any similar comparison during the World War, from 1914 to 1918. Up to 1917, when the United States entered the war, the increase in our currency was nearly all in gold—"gold inflation," it has been called—because our big sales of war supplies to Europe brought a flood of the yellow metal to our shores. In 1917 and 1918 the currency increase was in the form of Federal reserve notes, the result of rediscounting of Government and commercial paper at the Federal banks, rendered possible through the great change which had been made in our banking system.

There was, therefore, an increase in the volume of our currency and credit which, in its practical effects, amounted to inflation; but there was no premium on gold by which to measure the degree of inflation as in the Civil War. And of course another important difference lies in the fact that the present currency inflation, in one form or another, is almost world-wide, while in the Civil War it was confined to the United States.

We see at once, however, that the high Civil War prices were by no means entirely due to the depreciation of the currency. From 1863 to 1866 our prices in gold rose about 47%, although English prices were nearly stationary in those years. This advance compares with a rise of about 87% in American prices from 1914 to 1918—and as we have just seen, the latter advance was accompanied by a great increase in outstanding currency, while during the Civil War gold was hoarded to such an extent that only about $25,000,000 is estimated by the

director of the United States Mint to have been in circulation after 1861.

Comparing English and American (gold) prices from 1849, the year of the California gold discoveries, to 1873, which was the highest point of English prices between 1840 and 1915, we find that the rise in each country was almost exactly 38%. But from 1864 to 1872 American (gold) prices were relatively higher than those of England—from 1865 to 1867, much higher. This fact must be attributed almost entirely to scarcity of goods resulting from diversion of labor and materials into the war and from special war demands and war wastes.

The great rise in Civil War prices as expressed in *currency*—the dotted line on the graph—was due partly to the increase in the volume of currency and partly to actual distrust of the Government's ability to redeem its notes. Even though the Civil War greenbacks had been immediately redeemable in gold, there must have been, if the same quantity of them had been issued, a great rise in prices; but in addition to this inevitable rise, a further advance occurred because the relatively insecure financial position of the United States Government at that time lowered the value of its notes.

During the World War this element of doubt as to the United States Government's credit did not exist. Therefore the advance of American prices from 1914 to 1918 was due almost entirely to the war demand, which was permitted to express itself in prices through currency and credit expansion and the increase in our stocks of gold.

The war prices of 1918 reached substantially the same level as the *currency* prices of 1865; but it would be entirely unsafe to assume that prices will fall from that high level as rapidly as they did in 1866 and following years.

Two very important differences must be borne in mind: (1) The currency prices of 1865 were made in a *depreciated* money—depreciated as compared with gold. That was not true in 1918. Our currency was then greatly expanded, by imports of gold and by the issue of Federal reserve notes; our outstanding bank credits were tremendously enlarged; but the element of depreciation as compared with gold did not enter the situation at all.

(2) In 1865 our price level, as expressed in our currency, was enormously above the price levels of the rest of the world. Even our gold prices, as we have seen, were relatively higher than those of England. But our 1918 prices were relatively *lower* than those of Europe. English prices of 1918 were approximately 130% above those of 1914, while our 1918 prices were about 88% higher than 1914.

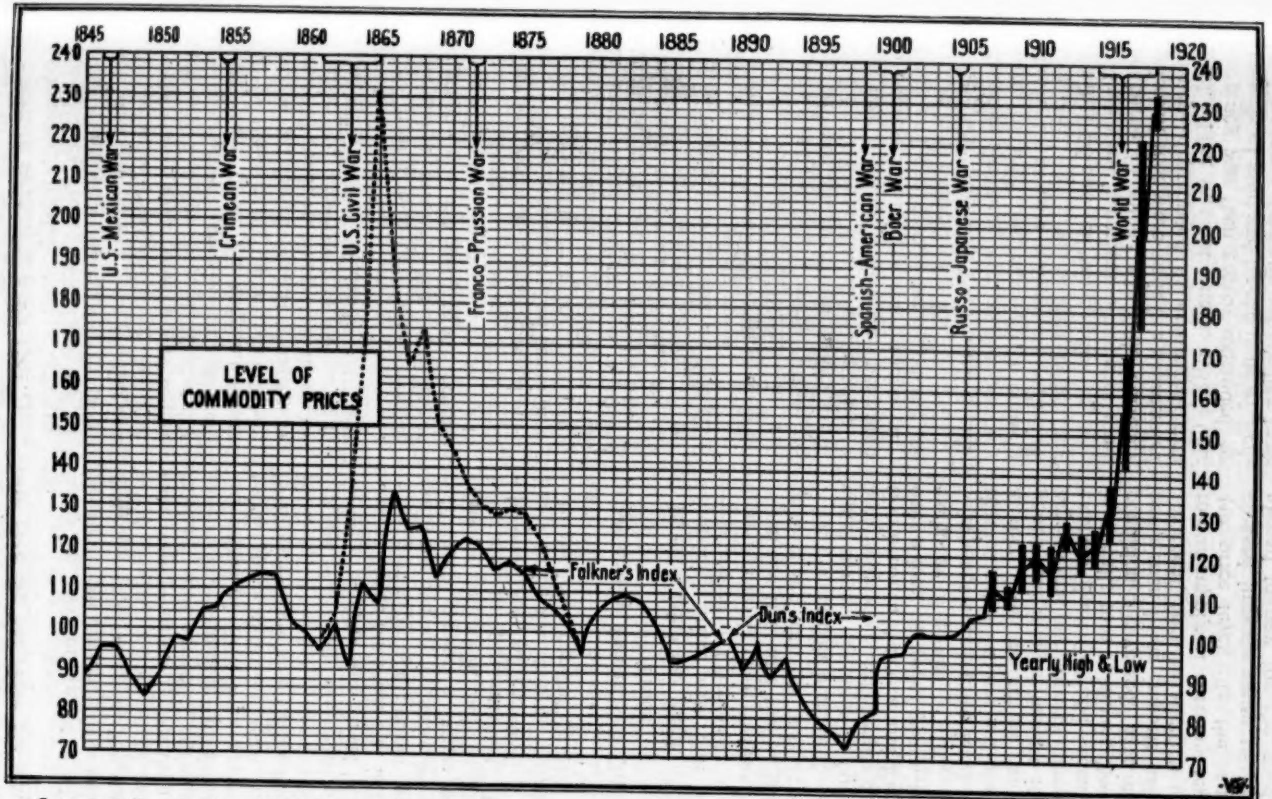
After the Civil War our prices returned to their pre-war level but, for the reasons above outlined, that is not likely to happen after the present war. The world has learned to make its supply of gold safely support a larger amount of currency and credit and the change will be to some extent permanent. Therefore a higher level of commodity prices is likely to be maintained, though not the extreme level created by the pinch of war.

Commodity Prices and Our Export Trade

In comparing the graph of American commodity prices with that of English prices shown in Chapter II, we see that there is a fairly close correspondence between the two, and that it tends to become closer with the passage of time.

This is not only because the same principles necessarily apply to both, but also because quicker and cheaper communication between America and Europe leads, over a long period of years, to a readier exchange of goods.

Whenever our price level rises above that of other nations we become a relatively good market in which to sell goods and a poor market in which to buy, so that our imports increase and our exports decrease, and when our price level falls to a relatively low plane this condition is reversed. But increased exports soon bring imports of gold to pay for them, and the addition of this gold to our supply of currency tends to raise our price level. In the same way increased imports cause us to send gold abroad to pay for the goods received, thus reducing the gold base of our cur-



COMMODITY PRICES—The weighted form of Falkner's index of commodity prices, as prepared for the Aldrich Report on Wholesale Prices to the United States Senate, is here used down to 1889. Down to 1850 the figures upon which it was based were somewhat fragmentary. In 1889 Dun's and Falkner's indices were practically the same, and from that point to date Dun's is used. It is a weighted average of wholesale prices of all important commodities. The various indices compiled by different authorities show only minor variations in the general trend. During and after the Civil War the dotted line shows prices in the depreciated currency of the period, and the continuous line shows the equivalent in gold. The gold prices are not strictly comparable with prices before and after this period. The prices of many articles continued to be fixed by custom, so that the full effect of the gold premium was not felt.

rency and credit and tending to reduce our price level to the point where foreigners cannot get so great a profit by shipping us their goods, and therefore our imports fall off.

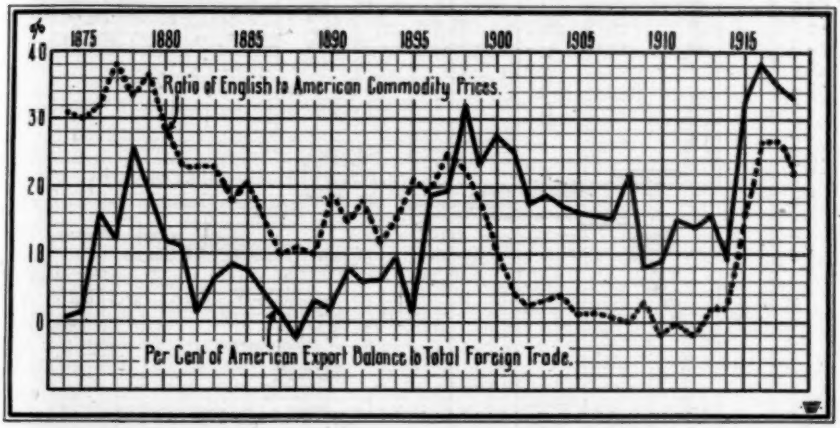
In this way our exports and imports of merchandise constantly tend to adjust our price level to the level which prevails in other countries. Prices throughout the commercial world are a question of international adjustment through exchange of goods and gold.

There is, however, a constant margin between what might be called the export level and the import level. Foreigners will not sell us goods until our prices are enough higher than theirs to cover the cost of placing the goods in our hands, and we will not sell them goods unless our domestic prices are enough lower than theirs so that we can afford to stand the cost of shipping the goods to them. Between these two price levels there must always be a margin, depending on the cost of transportation, tariffs, and the rates of foreign exchange.

The question of the relation between American and foreign price-levels and its effect upon our exports, and through them upon our domestic business also, is one of much interest. Our "export balance" from year to year reflects very clearly not only this price-relationship but also the progress of the "major trade cycle," as it is called—the broad swing of business activity from prosperity to depression and back again, covering a period of something like twenty years, which has been such a noticeable feature of our trade since 1837.

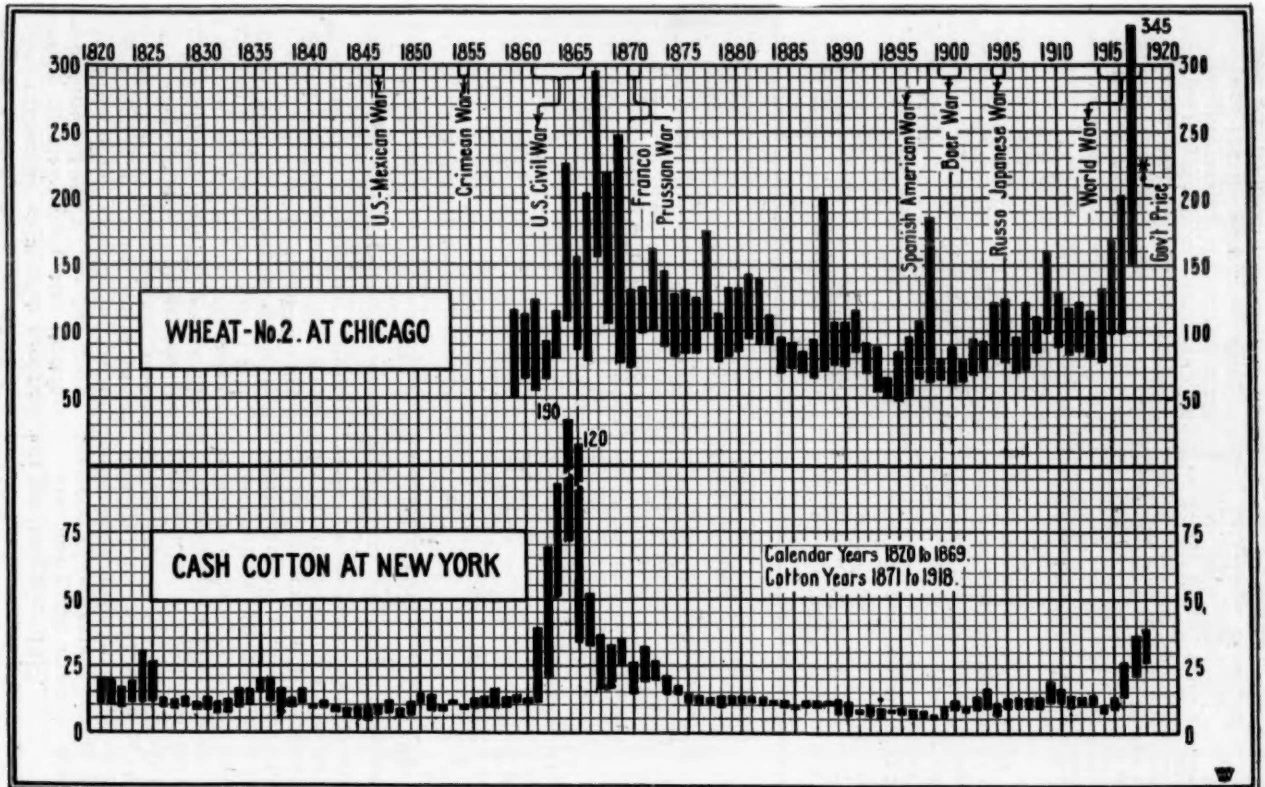
The small graph herewith, showing the per cent of our export balance yearly to our total foreign trade, in comparison with the ratio of English to American commodity prices, makes these relationships quickly intelligible to the eye. *

As would naturally be expected, the largest exports have usually occurred at times when English prices were relatively high compared with ours. The correspondence would be still closer but for the fact that during the most of this period our exports consisted almost entirely of agricultural products and were therefore dependent upon crop conditions as well as upon prices.



Those who are familiar with the business history of the United States will immediately note, on looking over this graph, that the high points of our export trade were in each instance followed by great prosperity, while small exports

*The export balance is shown in this form rather than in dollars in order to eliminate the change due to the rapid growth of our trade, thus affording a line which is fairly comparable one year with another throughout the entire period. No scale is shown for the line giving the ratio of English to American prices, since it expresses merely a relationship and the figures themselves have no significance. This line is obtained by dividing the English index numbers by the American index numbers. The fact that English prices were lower, compared with those of America, from 1902 to 1914, than they were from 1882 to 1894, was chiefly due to the great reduction in transportation costs between the two countries.



WHEAT AND COTTON—There has been a continuous market for cash cotton at New York since 1820, but for wheat the prices before the Civil War varied greatly in different parts of the country and there was no such system of standard grades as came into use later. After the completion of the Erie Canal, Albany occupied about the same relative position in the trade as Chicago occupies now, but the price records of that time were unfortunately destroyed by the fire at the State Capitol a few years ago.

have, broadly speaking, accompanied periods of relatively poor general business. The principal reason why a large balance of exports over imports has such an emphatically stimulating effect upon our trade as a whole is because it results in an inflow of gold from foreign countries. Our chief use for gold is in bank reserves, where it permits an expansion of credit formerly equal to about five times the amount of the gold and, under our new Federal bank law, to a good deal more than that ratio. Easy credit is the life of trade; hence the pronounced effect of gold imports.

Down to 1877 we regularly imported more merchandise than we exported and sent gold abroad to pay for it—being a gold-producing nation. But between 1872 and 1878 a great change occurred. Our imports of merchandise gradually fell from $656,000,000 to $432,000,000, while at the same time our exports increased from $469,000,000 to $737,000,000. The result is shown in the sharp rise of the "export balance" line on the graph. Large gold imports followed. From 1870 to 1875 our average excess of gold exports was about $36,500,000; but from 1879 to 1881 our average excess of gold imports was $66,700,000 yearly. It was this gold in our bank reserves which permitted the rapid business expansion of that period.

Similar conditions followed the great increase in our exports of merchandise which began in 1896, and again the great movement of 1915 and following years.

The Major Cycle

The small graph also defines clearly the swing of the "major cycle" of prosperity and depression. Without attempting to go deeply into fundamental causes, we may note that the year 1916 in the current cycle appears to correspond closely to the years 1898 and 1878 in the two preceding cycles, after which in each case generally prosperous business conditions prevailed for some years.

Moreover, we cannot leave out of our calculations in this connection the very large payments due this country from Europe for interest and principal of indebtedness incurred during the last few years. It is a question just how these payments are to be met. But in any case they must certainly tend to increase our national income as compared with the years before the war.

The graph showing wheat and cotton prices is less suggestive of general principles than that covering the average of all commodities. The two important factors which cause abnormally high prices for wheat in certain years are wars and crop scarcity. Their effect is plainly shown and the reasons for it are self-evident in view of what has been said in regard to the movements of commodity prices in general.

The famine prices for cotton in the Civil War were due to the blockade of Southern ports—practically no cotton being raised anywhere else in the world at that date. Since cotton is easily stored and can be carried over from year to year, speculation has in recent years become a notable factor in its price. Producers have made strong efforts, by storing their cotton and by reducing the acreage devoted to it, to maintain prices at a good level. Since fixed prices were not applied to cotton in the World War, it reflected fully the speculative spirit and the exceptional demands of the time.

(*To be continued*)

HOW A PATRIOT SHOULD INVEST

IN answer to the question, "In what should a patriot invest?" A. Kaston submits the following:

Pennsylvania
Reading
Electric Storage Battery
Southern Pacific
Illinois Central
Delaware & Hudson
Erie & Jersey 6s
Norfolk & Western
Texas Co.
Wabash A
International Harvester
Lehigh Valley
Southern Railway
Oregon Nav. & Ry. 4s
New York Central

The Break in Foreign Exchange

The War and Consequent Financial Chaos—The Five Distinct Periods—America the World's Workshop and Banker—The Problems of Future Readjustment

By SIEGFRIED STRAUSS

PRIOR to the outbreak of the Great War in August, 1914, the world's markets for foreign exchange had been thoroughly stabilized. Fluctuations during the last fifty years, when the world had enjoyed peace, were very narrow, and such fluctuations as occurred were caused by peaceful international trade and were corrected by either raising or lowering the loan and discount rates on banking and commercial paper in the world's financial centers, London, Berlin and Paris. Small shipments of gold had to be resorted to occasionally.

War and Chaos

In August, 1914, when the Great War broke out, chaos reigned in the foreign exchange markets for a few weeks. Our creditors, England, France and Germany, trying to strengthen their financial condition as much as possible, withdrew their funds in the United States, and this caused a tremendous demand for sterling, franc and mark exchange in New York City. Quotations for these exchanges reached a premium of 40%, a condition which was without precedent and which, it is probably safe to predict, will never arise again. The United States did not declare a moratorium as did most other nations, but liquidated all current liabilities abroad within a few months. It did not take very long to bring exchange back to a normal level, and then the pendulum swung to the other direction almost as suddenly as it had in August, 1914.

The United States became the world's workshop and supply merchant. Europe's manhood was fighting and unable to produce all the necessary war materials, unable to feed their own people or to manufacture goods for their former customers in Asia and South America. The United States shipped enormous quantities of foodstuffs and war materials to Europe, especially to England and France, and in spite of the blockade large quantities of raw materials and foodstuffs were shipped to neutral countries in Europe for re-export to Germany.

It was not long before quotations for sterling, francs and marks in New York City dropped far below par, and discounts of 10% to 25% were quickly reached. One year after the outbreak of the war sterling reached its low record of 4.48, a discount of over 8%. Gradually the Allies had become the best customers of the most important American industries, and just as every merchant has to give credit to his customers the United States had to grant credits to its best customer, the Allies, in order to keep the trade. The most important financial transaction in this respect was the Anglo-French loan of $500,000,000. Other British and French loans followed, and the proceeds of these loans helped to reduce the discounts on English and French exchange. Occasionally England also shipped gold by way of Canada to New York City to stabilize her exchange. But while the Allies were successful in stabilizing their exchange in New York City, it became increasingly difficult for them to do the same thing in other neutral countries. The European neutrals were making enormous profits by selling supplies to both the Allies and Germany. They sold English, French, and even German exchange in New York City, using the proceeds for buying their own exchange.

America the World's Banker

Then, in the spring of 1917, the United States entered the war. It became unnecessary for the Allies to ask the American bankers for further financial help, because the Government of the United States became their bankers. Huge credits surpassing two billion dollars were granted by the United States Government to the Allies, and with the help of these huge amounts it became comparatively easy to keep the exchanges of the Allied nations "pegged" around a certain level. German and Austrian exchange ceased to be quoted in New York City. But the exchanges of the European neutrals continued to rise, and in 1918 the quotation for Spanish exchange rose to premium of nearly 60%. The problem of keeping these neutral exchanges "pegged" near a more moderate premium became increasingly difficult, and all kinds of remedies were proposed, but none was found to be feasible. When the military success of the Allies became a certainty last summer, however, those neutral exchanges started on their downward trend, and found their normal level in a comparatively short time. After the declaration of the armistice the exchanges of the Allied countries remained very steady around the "pegged" level for about six months. Around the middle of March, 1919, the foreign exchange market in New York City was taken by surprise by a sudden fall of 6% in the exchange rate on Paris, and a few days later English exchange, which had been successfully "pegged" for three years at 4.76 7/16, suddenly dropped to 4.58.

Five Distinct Periods

We can now distinguish five distinct periods in the history of foreign exchange during the Great War: The panic at the outbreak of the war, when European exchanges soared sky-high; the period when the exchanges of the belligerents in Europe fell to heavy discounts, which could but partly be remedied by the help of the American bankers; the third period, marked by the successful stabilization of Allied exchanges around moderate discounts, after the United States had entered the war, while neutral exchanges went to enormous premiums; the fourth period, in the fall of 1918, marked the return of the neutral exchanges to more normal conditions; and now in the month of March, 1919, we witness the beginning of the fifth period of readjustment, which is starting with the "unpegging" of the two leading Allied exchanges, the British pound sterling and the French franc.

The immediate cause for the sharp fall in the pound sterling from 4.76 7/16 to 4.70 was the announcement of Messrs. J. P. Morgan & Co., Great Britain's fiscal agents in the United States, that they had received instructions from the British Government to suspend purchases of sterling exchange for Government account.

Reasons for a Further Drop

There are of course a good many reasons why Allied exchanges should drop further. Firstly, the United States Treasury has no authority to grant further advances to the Allies, except for purchases of wheat. The Allies are, therefore, compelled to look for help to the private bankers in this country, and the present period of readjustment is certainly not a good time for placing large foreign loans among the investing public in the United States. In addition to this a French and an English loan of considerable size fall due this year and have to be repaid. Probably some short term banking credits for England, France, Belgium, Italy and possibly Germany will be arranged. German exchange, by the way, has dropped in the neutral countries of Europe to below 10c American money for the mark, compared with 23¾c par value, a discount of close to 60%.

Future Readjustment

The coming period of readjustment will find the United States as the world's financial center. The United States will, however, have to act not only as banker, but also as supply merchant and physician for Europe, because our European customers, without exception, are sick, and need every kind of help. The United States will be asked to feed Europe, to send raw materials and machinery, and to grant financial assistance to prevent too strong a dislocation of European exchanges.

Leading Opinions

About Investments, Banking and Business Conditions

Vanderlip Warns of World Disaster

In contradistinction to some of the optimistic views which business and financial leaders have been expressing in this country, Frank A. Vanderlip, president of the National City Bank, of New York, sounds a strong note of warning from Paris. He said in part:

"I doubt if America has begun to comprehend the seriousness of the appalling situation which confronts Europe, and the wreck which the whole fabric of civilization may be facing.

N. Y. *Tribune*

WAIT TILL HE GETS THE REAL BRONCO BUSTER ON HIS BACK

"America was once told there might be peace without victory," he said. "What we have is victory without peace. Production has ceased, and unless production can be speedily resumed one's imagination cannot comprehend the chaos which may ensue.

"The great productive machine of Europe must be started or the world will be confronted with a disaster such as no experience has recorded.

"What can America do? There is certainly one thing it cannot do and that is to withdraw itself, to rest in the belief that this chaos is remote and that America can avoid playing her part in international responsibility. We must think in international terms as we never thought before. The gigantic strength of our own position will not keep us free from the effects of events here."

Messrs. Gary and Teagle More Optimistic

Taking what perhaps might be termed a short-range view, E. H. Gary, the incorrigible optimistic and who can always be counted upon to find some silver in every cloud no matter how inky, says in discussing the recent cut in steel prices:

"The iron and steel industry was the first called upon by the board to meet the business situation and to lend its energies and assistance in bringing about readjustment and restoration of good business conditions, and therefore was the first called upon to make the necessary sacrifice in profits.

"Those connected with the trade believe that as a result for the year as a whole they will be compensated, and that if other lines of industry show the same disposition, as they undoubtedly will, we may expect great business progress and prosperity in the near future."

Walter C. Teagle, president of the Standard Oil Company of New Jersey, is also an optimist. He says:

"The situation which confronts us is an actual shortage of goods and a surprisingly sound mercantile credit position. There is a surplus of some few war commodities, the manufacture of which was necessarily maintained at the peak until peace was absolutely assured. New construction and replacements in the industrial plants of this continent have fallen far behind normal requirements, and it seems as if taking up this slack by doing the thing we neglected to do during the war will call for every employable man. Even during the present seasonal period of idleness, common to many outside trades and to unskilled labor, there are not the numbers of unemployed workers which have been in evidence in the larger centres of the United States during the late months of winter in the periods of commercial depression before the war began."

"International Co-operation Necessary"—E. R. Stettinius.

"Co-operation and not competition should be the policy of American and British business men," said Edward R. Stettinius, former Assistant Secretary of War, to the

New York *Evening Globe's* London correspondent. He was on his way to Paris to assist the newly organized United States liquidation commission in winding up the business affairs of the American Expeditionary Forces.

"Here and there in England," he continued, "I have encountered the impression that great business interests in the United States are engaged in some sort of a plot to form an international trade ring to grab off all the spoils before the nations of Europe, especially Britain and France, are ready to resume ordinary activities. There is nothing in the shape of any concerted movement of that kind in our country. We, of course, hope to get our share of the business opportunities the reconstruction era may open up, but in my judgment we shall profit in the long run by exploiting the opportunities in partnership with our European friends. I am firmly of the opinion that it is incumbent on us to join hands more closely than ever before."

"Copper in a 'Hard Winter'"—Jackling

Col. D. C. Jackling, managing director of Utah, Chino, Ray and Nevada Consolidated Copper companies, while on a five-day stop at Salt Lake City, said in discussing the position of copper and prospects for early business in metal: "No man can safely predict immediate future of the copper situation. But I have no doubt that readjustment construction work abroad as well as in the United States will place copper on a firm basis.

"At present it is like going through a hard winter. You can't tell how long it will last, but we knew there will be a spring, and this should be followed by a growing summer. So far we are disappointed, but not discouraged.

"At Nevada Consolidated, as well as our other plants, things are in as good condition as can be expected when we are running at about half capacity. We intend to keep things going as long as we have money or can borrow to do so, confident that copper will ultimately be on a substantial and profitable basis. At present time cost of production is in excess of market price."

"Patriotism Must Float Loan"—Glass

Appealing confidently to the patriotism of the American people to make a success of the coming Victory Liberty loan, Secretary of the Treasury Glass in speeches in Minneapolis and St. Paul, declared the loan could not be floated on a strictly commercial basis.

The people have ample resources, he declared, from the $11,000,000,000 trade balance of the last three years, high war wages and the thrift engendered by the war and its savings campaigns.

"We are not going to approach the last Liberty loan in a strictly commercial spirit," said Mr. Glass. "A little thought will teach the wisest among the financiers of the country that it is impossible to float, purely for investment purposes, a loan of five or six billion dollars. We have got to appeal to the patriotism of the American people, and it will not be done in vain."

Redfield Opposes Freight Rate Increase

Declaring that the railroad administration is not justified in raising freight rates

Muskegon (Mich.) *Chronicle*
THE OLD, OLD STORY

merely because of the need for revenues, William C. Redfield, intervening as Secretary of Commerce, filed with the Interstate Commerce Commission a brief in behalf of the Solvay Process Company, of Solvay, N. Y., in a rate case again the Delaware, Lackawanna & Western Railroad Company and William G. McAdoo, former Director General of Railroads. The brief said in part:

"It would be much better for the Government to make up any deficit in the operating expenses of a railroad or a railroad system than to permit the people and the industries of this country to bear the burden of unreasonable transportation charges.

"It is, of course, obvious that revenues must be had, but these revenues must be obtained from the rates which are 'just and

reasonable' and having due relation to the expenses of operation. The question which, by its essential character as a public service, the railroad administration must ask as it approaches a matter of this kind is not 'How can we obtain the greatest revenue at the least cost?' but 'How can we best serve the public directly and indirectly concerned while operating at a reasonable and just profit?'"

"Europe Will Electrify"—S. Birch

Stephen Birch, president of Kennecott Copper Corporation, says it is only logical to expect that the railroads and mines of

N. Y. *World*

THE PACK HORSE

Great Britain, France and Italy will be electrified as soon as their finances will permit, and that this will call for an enormous amount of copper.

Speaking about the copper situation in general, Mr. Birch said that there is little demand at the present time and very little metal is being sold; that Europe has a large surplus and it will probably be some time before a substantial buying movement gets under way in this country.

"But stockholders must be patient," he continued. "The copper companies are carrying larger amounts of metal and might have to carry larger amounts. It is impossible to shut down mines because organization must be continued and labor fairly dealt with."

"Politics Nullifies Economics"—F. H. Sisson

Francis H. Sisson, vice-president of the Guaranty Trust Co. of New York, while speaking before the members of the Bond Club at the Bankers' Club on the political aspect of finance and business, urged the investment bankers to assess more thoroughly the effect of general social, political and economic movements on the fundamental values of securities.

The pith of his idea was expressed thus: "It is not sufficient to know that a certain corporation has earning power and has franchise values and has business prospects in the way of expanding opportunity, unless there is behind that an awakened public opinion, and a public opinion that is based upon sound economics."

"The business opportunity," Mr. Sisson added, "means nothing, unless we have acquired with it political intelligence which makes it possible. We look into our own city here, and we discuss the cost of transportation and the economic problems that are involved in public utility problems generally, but what good is the understanding of the economic problems if you have sitting in legislative and administrative halls a degree of political intelligence that absolutely nullifies it, which defies economic law, which refuses to recognize cost of production and cost of service as a basis of price?"

Eliot Advocates Plan for Labor

A programme for co-operation between capital and labor designed to bring about "a just settlement of industrial strife" was outlined by Charles W. Eliot, president emeritus of Harvard University, at a legislative hearing in Boston on a bill for the appointment of a special commission to study the hours of labor in Massachusetts industries.

As a final basis for his programme Dr. Eliot proposed:

"General adoption of a genuine partnership system between the capital and the labor engaged in any given works or plant, whereby the returns to capital and labor alike after the wages are paid shall vary with the profits of the establishment, the percentage of the profit going to payroll being always much larger than that going to shareholders or owners, and payroll never being called on to make good losses. As a means of securing to employees full knowledge of the partnership accounts they should always be represented in the directorate."

BONDS and INVESTMENTS

Have You Examined Your Strong Box?

Results of an Exploration Through the Bond List That Should Help Investors—Some Advisable Switches from B.R.T., N.Y.,N.H. & H. and Other Issues

By JACOB H. SCHMUCKLER

LIKE human beings, securities] never stand still; they either go forward or backward, and their relative positions are ever changing. Moreover, in the world of securities as in human society, some are overestimated, many are correctly judged on their merits, while a number, for some reason or other, are underestimated and neglected.

The moral of all this for the investor is that only eternal vigilance will bring him the best results. At almost all times there are some exceptional bargains in the market, which he can pick up to add to his holdings, or to take the place of some old ones, with substantial gain. The securities of a stationary or declining property can be replaced by those of younger and more promising properties; market losses in one issue can be made up by substituting another, and other changes can be made with immediate or eventual benefit.

Some investors look rather abashed at any material shifting of their holdings, but the unfortunate consequences of adherence to a policy of "hanging on," regardless of everything, are seen almost daily. The strong box is a sort of barrier to every progressive force. It should be strong only against "unrightful" appropriation, but absolutely free to constant examination and needed changes in its contents.

The student of investments can perform no more important function than guiding the investor aright by pointing out bargains, suited of course to his requirements and circumstances, and by suggesting advisable changes. I submit below the results of an exploration of the bond list, which should prove of considerable benefit to a number of actual and prospective investors. The suggested changes are presented in Tables I, II, III and IV, and the rest of this article discusses, so far as the limitations of space will permit, the various issues these tables include.

Brooklyn Rapid Transit Bonds

The present outlook for this property is hardly enviable. While it may eventually be satisfactorily reorganized, the whole process will undoubtedly be very long-winded and will be attended with many uncertainties and complications. Under such conditions holders of the three bonds named in Table I would do well to switch into other issues as indicated therein.

Kansas City Railways First 5s, 1944, are a first mortgage upon all the assets of the property. Total interest charges are being earned with a fairly wide margin. Marketability is good. While the bonds do not as yet command the reputation enjoyed by the B. R. T. in the old days, it is worthy of note that "the old order changeth" even among securities.

Seaboard Air Line Adjustment 5s, 1949, are an attractive semi-speculative issue, which offers good possibilities for the "long pull." Interest charges on these bonds are fairly well protected, have been paid at the full 5% rate for some time, and are cumulative. The road has been showing good improvement in

the past few years, and operates in a territory which offers opportunities for further expansion. Assuming even that interest has to be passed for a short time, it would accumulate against future earnings, and would undoubtedly be paid up before long. Certainly the very attractive rate of return on the investment amply makes up for this possibility.

low price is that public impression regards all the motors as speculative. There is a fair market for the notes on the Cleveland Exchange and over the counter in New York.

St. Louis Southwestern First Consolidated 4s, 1932. The bonds of this property have undoubtedly been neglected by investors because of its former

TABLE I—B. R. T. OBLIGATIONS

B. R. T. Issues—	Due	Approx. Price	Yield	Switch to— Issue	Due	Approx. Price	Yield
First 5s	1945	74	7.25%	Kansas City Rys. 1st & 5s	1944	72	7.52%
Refunding 4s	2002	49½	8.10	Seaboard adjust. 5s	1949	48⅛	11.90
				or American Gas & Electric pfd	....	43	7.00
7% Notes	1921	85¼	15.00	Peerless Truck 6s	1925	89	8.35
				or St. Louis S. W. 1st cons. 4s	1932	58¾	9.63

American Gas & Electric 6% Preferred is another good issue to substitute for the B. R. T. Refunding 4s. This stock ranks as high as a very considerable number of corporation bonds outstanding.

At the present price it yields about 7% on the money, an exceptionally attractive return considering the excellent character of the issue.

management, but the Goulds are now gone and the property has been showing good improvement. The operating efficiency of the road has been on the up grade, and in place of deficits after charges, as shown in the 1914 and 1915 fiscal year, the charges are being earned by a fairly wide margin. This particular bond is part of a closed mortgage, and is secured upon rather valuable assets.

TABLE II—N. Y., N. H. & H. JUNIOR OBLIGATIONS

N. Y., N. H. & H. Issues—	Due	Approx. Price	Yield	Switch to— Issue	Due	Approx. Price	Yield
Debenture 6s	1948	86	7.15%	Chile Copper cons. 6s	1932	84⅛	8.00%
Debenture 4s	1956	55	7.73	Seaboard refunding 4s	1959	56⅛	7.80
Debenture 4s	1955	56	7.60	Seaboard refunding 4s	1959	56⅛	7.80
Debenture 3½s	1956	50½	7.50	Seabo'd Air Line adj. 5s	1949	48⅛	11.90
				or American Gas & Electric preferred	....	43	7.00
Debenture 3½s	1954	50½	8.40	Seab'd Air Line adj. 5s	1949	48⅛	11.90
				or American Gas & Electric preferred 4s	....	43	7.00

Peerless Truck & Motor 6s, 1925. Why these have been and are still selling so low is a mystery but, judging by the way in which they have been moving upward in the last few months, some persons have evidently transformed the mystery into an "open book." These notes are an unique bargain, unless there is a skillfully calcimined colored gentleman around. The situation has been very carefully looked into by a large number of security analysts, and the only possible reason that has been assigned for their

New York, New Haven & Hartford Junior Bonds

The general situation of the New Haven surely does not inspire confidence. Everybody must admit that the road operates in a remarkable territory, and is fundamentally a good earner, but before it can live up to its past reputation and possibilities, a thorough house cleaning and overhauling are indispensable. There can be little doubt as to the company's bonds while the road is being operated by

the Government, but eventually it will be turned back to its owners, and then the old difficulties will unquestionably reappear. The road has just about earned interest charges in the past four years. Bearing these considerations in mind, it looks like good policy to switch from the New Haven debentures into some other issues which, while not carrying the prestige of New Haven, are better secured and offer some prospects.

Chile Copper Convertible 6s, 1932, are a direct obligation of the company, and are further secured by deposit of the entire capital stock of the operating company, Chile Exploration, subject to the Collateral Trust 7s. Total interest charges were covered nearly twice in 1916 and 3.2 times in 1917. The 1918 showing was not quite so good. Business will not undoubtedly be exceptional until the readjustment in the copper industry is passed, but Chile Copper has first-rate properties, and with shipping facilities nearer normal should show up very well.

Seaboard Air Line Refunding 4s, 1959, look good at prevailing levels. There are $125,000,000 of these authorized, of which only $20,004,000 are outstanding, but any further issues must be pledged under the first and consolidated 6s, 1945. The refunding 4s are secured by varying liens on valuable mileage, and are senior to the first and consolidated 6s, the adjustment 5s and the notes. The general outlook for Seaboard was discussed above under the adjustment 5s.

Bethlehem Steel Bonds

It is almost unnecessary to say that any bond of Bethlehem Steel is strongly secured. All of Bethlehem's bonded obligations are of course high grade, but they are selling out of line with each other, and a few suggestions on this point merit their holders' attention.

Bethlehem Steel Purchase & Improvement 5s, 1936, are quoted around a 6.50% basis, or about .75 of 1% higher than any other long-term bond of the Bethlehem Co. The issue is very substantially secured by earning power and assets. It is a first lien on certain real estate at Steelton, Pa., and Sparrows Points, Md., and subject to a few comparatively small closed mortgages, for the retirement of some of which provision is made in the mortgage, it is a lien on the real estate and plants of the Penn-Mary Steel Co., and also on the controlling capital stock of its subsidiaries. The bond is the only funded obligation of the Bethlehem Steel Co. that has not been guaranteed as to interest and principal by the corporation. It was brought out under rather unfavorable conditions in the bond market, and has not apparently as yet fully recovered from the unpropitious circumstances attending its birth. However, its market is now fairly well established and quite active. The first extension 5s and the first and refunding 5s carry a better security than the purchase money 5s, but the investor in them is losing from ¾ to 1% return, quite a consideration in these days of reconstruction time taxation, and he ought therefore ask himself if it is worth while to sacrifice income for safety beyond a certain point, unless of course the issues are being held for some special purpose. I believe, however, that most investors would do well to shift from the first extension 5s and the first refunding 5s into the purchase money and improvement 5s.

Bethlehem Steel 7% Notes, due 1923, are high grade. They are a direct obligation of the Bethlehem Steel Co. and Corporation, and are further secured by $70,000,000 new consolidated thirty-year 6% series A mortgage bonds, due August 1, 1948, or in the ratio of $140 of bonds

TABLE III—BETHLEHEM STEEL BONDS

	Due	Approx. Price	Yield	Switch to— Issue	Due	Approx. Price	Yield
First Extension 5s	1926	96	5.69%	Purchase Money & Imp. 5s	1936	83¾	6.55%
First & Refunding 5s	1942	89¼	5.85	Purchase Money & Imp. 5s	1936	83¾	6.55
Purchase Money 6s	1998	105	5.70	7% Notes	1923	101½	6.40

for each $100 notes outstanding. The notes are convertible at par into the pledged bonds at a price for the bonds on a 6½% basis at the time of conversion. This conversion can be made at any time until the maturity of the notes. The series of notes due in 1923 are now on a 6.40% basis. The solders of the purchase money 6s, 1998, could shift into the notes with a gain in income return, and could at the end of about four years secure a high grade bond yielding 6.50% for about twenty-six years unless, of course, the notes are redeemed before maturity.

due 1935. These are practically a second mortgage upon all the company's assets, subject to only $19,500,000 first 4s, due 1929. The road is a very good earner, and has been showing expansion. Interest charges were earned 1.85 times in 1916; 2.14 times in 1917 and 2.85 times in 1918.

Chicago Railways. The underlying bonds of this property are in a sound investment position, but the junior obligations appear to be quite speculative and offer but limited possibilities. I would suggest shifting from the purchase money 5s and consolidated series B 5s, both due

TABLE IV—MISCELLANEOUS CHANGES

Switch from— Issue	Due	Price	Yield	To— Issue	Due	Price	Yield
Bos. & Maine plain 4½s	1929	88	(1)	Colorado & Southern gen. ref. 4½s........	1935	78	6.75%
Bos. & Maine plain 4½s	1944	80	(2)	Colorado & Southern gen. ref. 4½s........	1935	78	6.75
Chicago Rys. par. M. 5s.	1927	45	18.11%	Seabo'd Air Line adj. 5s	1949	48⅛	11.90
Chicago Railways cons. 5s, Series S..........	1927	45	18.11	Seabo'd Air Line adj. 5s	1949	48⅛	11.90
Chicago Railways cons. 5s, Series C.........	1927	95	5.71	Chesapeake & Ohio con. 5s..............	1946	86	6.05
Chicago Railways cons. 5s, Series A.........	1927	75	9.31	St. Louis-San Francisco final 5s	1950	77	6.65
Federal Light & Traction 1st 5s...........	1942	77	7.05	St. Louis-San Francisco plain 5s	1950	77	6.65
Kansas City, F. S. & Memphis 6s.........	1928	101½	5.78	N. Y. Central deb. 6s..	1935	98½	6.30
Lima Locomotive 1st 6s	1932	95	6.55	Chile Copper conv. 6s.	1932	84⅛	8.00
United Fruit deb. 4½s..	1923	100	4.50	Chicago & N. W. debenture 5s	1933	96½	5.35
United Fruit deb. 4½s..	1925	100	4.50	Chicago & N. W. debenture 5s	1933	96½	5.35

(1) Interest in default since October, 1916.
(2) Interest in default since January, 1917.

Miscellaneous Changes

Boston & Maine. The interest on both the plain 4½s of 1929 and 1944 have been in default for some time. These issues are not to be disturbed under the reorganization plan, which apparently has been side-tracked somewhere of late. The fact is that Boston & Maine is very much of a New Haven, and holders of junior obligations would materially improve their prospects for better market values, to say nothing of income return, by changing into other well secured and more promising issues.

Among the best bonds to be had for the two obligations named above are the Colorado & Southern Refunding 4½s, in 1927, into the Seaboard Air Line Adjustment 5s, due 1949; from the consolidated series A 5s, due 1927, into the St. Louis-San Francisco Prior Lien 5s, due 1950, and from the consolidated series C 5s, due 1927, into the Chesapeake & Ohio Convertible 5s, due 1946.

St. Louis-San Francisco prior lien 5s, 1950. This road has shown up very well since the recent reorganization. Total interest charges were earned one and three-fourth times in 1916 and nearly twice in each of the two following years. Earnings have been showing good expansion, and with increasing efficiency in management, the road is capable of large development.

Chesapeake & Ohio convertible 5s, 1946, are virtually a collateral trust issue. They are an obligation of the road, and are secured by deposit of $45,920,000 (114% par value of these bonds) first lien and improvement 5s, due 1930. The mortgage is now closed. The road has been showing good improvement in the past few years. Total interest charges have been earned on the average of twice over in the last three years. The company is one of the few to show an increase in net along with gross in 1918, reflecting its efficient operation. The conversion feature offers attractive possibilities.

Federal Light & Traction First 5s, 1942, are a fair business man's investment, but around 77, the holder could obtain a better secured and more promising bond in the St. Louis-San Francisco Prior Lien 5s, due 1950.

Lima Locomotive First 6s, 1932, at present prices appear to be much overvalued, considering their security and marketability. The investor will improve his position substantially by shifting to the Chile Copper Convertible 6s, due 1932.

Kansas City, Fort Scott & Memphis Consolidated 6s, 1928, are an underlying issue of the Frisco system, and are of high grade character. However, at current prices they yield only about 5.75%, and for the investor who is looking for a security into which he can shift and secure a little more income without sacrificing any material amount of safety, the New York Central Debenture 6s, 1935, should prove attractive. The marketability of this issue is wider than that of the Fort Scott issue.

In claim to property these debentures follow all other indebtedness, but the road's interest charges are well protected. These were earned about 2.58 times in 1916, 1.88 times in 1917, and about 1.75 times in 1918. High operating costs have been the cause of the decreasing margin for interest charges, but under more favorable conditions for the railroads a larger margin is to be expected.

United Fruit Debenture 4½s, 1923 and 1925, are undoubtedly selling on such a low yield basis primarily because of their good chances of being redeemed for the sinking at 101 and interest. This kind of stabilizes the market for the notes, which is a vital consideration for some purposes, but the ordinary investor could secure a number of strongly secured issues yielding a much larger return which would more than make up for the possible profits to be gained through the retiring of the debentures through the sinking fund. Among the best of such are the Chicago & Northwestern 5s, due 1933, a high grade issue, selling to yield 5.35%, or .85% more than the United Fruit issue.

OILS AND FUNDAMENTALS

JOHN WARREN, in a recent issue of *The Petroleum Age,* says: "Old Doc. Babson is in again. With the February issue of his 'Speculators' Bulletin,' he returns to his attack on the oil industry and under the minatory heading, 'A Warning,' writes the following yawp:

> "'From one end of the United States to the other, people are wildly buying oil securities. Stocks of companies that have only remote prospects of oil have been soaring. Just why we should be witnessing this eleventh hour enthusiasm on "liquid gold" is beyond our comprehension.'

"Beyond his comprehension! That's an easy guess. When one is uninformed about an industry, it is patently beyond his comprehension, and unless the dear old doctor is culpably careless in his phraseology, he gives unmistakable evidence every time he takes his pen in hand, just why the petroleum industry is beyond the Babsonian comprehension.

"We can't fall for you, Doc, when you tell us, 'There is no reason to anticipate a continued expansion in demand for petroleum, any more than in the iron and steel or copper industry.' Why waste words, you don't know what you are talking about, any more than you do when you say, 'We are witnessing the crest of the boom in the oil industry as we witnessed that of the automobile industry in 1915.'"

A "Wolf Drive" Against Fake Promotions

Associated Advertising Clubs Plans Big Movement—The Pan Motors Case

DURING the next few months a plan to put enough weight behind the fight against fake stock promotion schemes will be put in effect. The Associated Advertising Clubs of the World has in the past spread its literature broadcast in the condemnation of illegitimate projects in the oil fields, the fraudulent stock promotions of the automobile and other industries.

One of the recent cases of note was the investigation and report on Pan Motors, of Minnesota, with a capital stock of $5,000,000, whose securities were sold to more than 50,000 people in 46 States. Its sponsor was recently indicted, soon after the reports appeared, on the same evidence as that upon which the report was based.

"We have launched upon the biggest campaign in the history of this Association," writes Carl Hunt, director of the Associated Advertising Clubs, "for we have proved that we have a service of value to render, that we are well-prepared to do this work, and that there is such a demand and such a need for the service, that honest business men will readily rally to the support of the movement.

"This movement might be compared to a factory which has proved its product and is ready for quantity production, and we believe that the business men of the United States and Canada, long suffering at the hands of the promotion faker, will be ready with the additional support needed to put this job over in such a way as to make this type of genteel larceny unpopular.

"Every time we handle one of these cases, it has a wide influence on other fake promotions. It discourages them."

Hurts Legitimate Business

The fake promoter is detrimental to legitimate business in many ways. He diverts funds out of the channels of honest business, making it harder to float legitimate promotions, which are of the highest importance to the progress and prosperity of the country. Advertising done by the fakers minimizes the force of the advertisements of legitimate brokers. Inexperienced persons who learned for the first time during the war to save and invest in conservative securities, are being induced to trade their bonds for fake stocks, and thus be discouraged in habits of thrift and wise investment. The fake promoter's favorite method for selling stock is to attempt to show that existing businesses in the line under consideration are making enormous profits, giving the impression that business teems with profiteers. They do not picture the failures, or the struggles that others have had in getting started. They show only the rosy side of the picture.

Mr. Hunt further says: "We are going right ahead with the work, placing it on a bigger scale, pinning our faith to the fact that most business is honest, and that honest business will supply the funds needed for this work. It is just as Merle Sidener, chairman of the National Vigilance Committee, in charge of this work, said, 'We do not believe that those who are most vitally interested will fail to get behind this work, morally and financially, because otherwise, they would be in the attitude, through their inactivity, of playing into the hand of the faker.' That sizes up the matter. The time has arrived to drive the fakers to cover. It is like a wolf drive down in the mountain country. All hands are required."

Funds are necessary to carry on this essential work. Interests should pool together and make the big final effort to do away with financial pirates. The Associated Advertising Clubs of the World has been doing an economic good for the community and should be supported.

Traction Bonds Stand the Test

Many Have Come Through the Gruelling Ordeal Satisfactorily—Has the Turn Been Reached?—Some High Rates of Return—Attractive Issues Discussed

By J. H. SCOTT

OUR ancestors in the middle ages had a simple way, called the ordeal by fire, of trying a man accused of a crime. If the victim came through the fire substantially unharmed, he was innocent. If he was burned to death, he was guilty.

The traction companies have recently been through a sort of ordeal by fire. They have also run over hot plowshares, have been placed on the rack, and have had the thumbscrew applied to them. We won't mention the ducking-stool for fear some of the traction managers might consider our reference to water offensively facetious. But by these semi-barbarous methods of arriving at a judgment, most of these companies have demonstrated their innocence.

Conditions created by the war sent up the prices of everything the traction companies need, from labor to copper wire, and because of these rising costs, increases in gross earnings were not matched by gains in net. Consequently, the margin of safety for fixed charges was generally cut down.

Most investors reach their conclusions by a very hasty process of generalization. Moreover, under unfavorable conditions their fears often get the better of their judgment. Hence low prices for traction bonds.

The fact is that interest returns on but few of the better grade traction bonds have been endangered by recent unfavorable earnings. In some cases the number of times interest charges have been earned on an issue has been reduced, but the more substantial and healthy companies have gone through the worst unscarred. The heavily overcapitalized, poorly managed and "milked" properties were bound to "hit the rocks" sooner or later, and perhaps the sooner the better.

The fact is that, despite all difficulties of operation and a relatively large bonded indebtedness, it has been calculated that if actual 1918 fixed charges of the traction companies were to be applied against the 1914 gross, there would still be a surplus. Moreover, despite recent very unfavorable developments in the New York Tractions, the traction situation has now turned for the better. Increases in rates have been granted in hundreds of cities; flat denials to appeals have been few, and in most cases the attitude of the public and the courts is tending toward fair treatment to the utilities.

Finally, what is perhaps the most important fact is that declines in operating costs are to be expected. A preliminary indication of the future is to be found in the downward trend in the operating ratio for last December. If the great majority of public utility bonds have come through their recent troubles without any very dire effects—excepting depreciation in market values, a phenomenon common to all classes of bonds, then surely with the better outlook for the public utilities, their bonds merit consideration by the discriminating investor who seeks to combine so far as possible safety, high yield and possibilities for higher prices.

Some Traction Bonds Look Good

The funded debts of our street railways include a number of attractive issues, which can be picked up around present levels to great advantage. It must be remembered, however, that traction bonds in general have a rather limited market. Excepting the issues of properties operating in the chief cities, some of which are actively traded in on the exchanges, the market for bonds of this type is confined chiefly to the "over-the-counter" trade. Under normal conditions, however, one can liquidate his traction bonds, if necessary, without much difficulty, and the high rates of return yielded by many of the substantially secured traction bonds, along with their

good possibilities for market appreciation in a more normal bond market, furnish ample compensation for this shortcoming.

In Table I a number of well-secured street railway bonds having pretty active markets are presented, and Table II gives a number of attractive issues with somewhat less active markets. Current prices are given as best they can be obtained, and the approximate rates of return on the several investments if held to maturity are calculated on the basis of the averages between the bid and asked prices.

United Railway & Electric First 4s, 1949. Total interest charges of this company, which is a consolidation of all the street railways in the city of Baltimore and vicinity, have been earned nearly once and a half times in each of the last three years. The Maryland Electric Railways is operated by the United Railways under a lease which practically guarantees the interest and sinking fund charges on the 5% bonds of the subsidiary.

Chicago City Railways, First 5s, 1927, are a well protected issue, and investors need have very little fear concerning them, as they will be well taken care of in the negotiations now on between the city authorities and the company, relative to the future traction policy of the city of Chicago. These bonds are the only direct funded obligation of the company, and the amount outstanding is $33,900,000. Interest charges have been earned nearly twice over in each of the four fiscal years ended January 31, 1918. Present prices of about 82½ are only about one-half point above the low record since 1900, and compare with a high of 97¾ for the year. Considering the good market and security along with the high yield, they look like one of the best of the tractions.

Detroit United Railway First Consolidated 4½s, 1932. More than one person, I suppose, has asked himself why these have been selling so low, and there appears to be no very good reason, excepting possibly that the tractions are "taboo." The bonds have advanced about six points since the beginning of the year, but their present price scarcely discounts their security and improved condition, arising out of the closing of the very favorable negotiations between the city authorities and the company for the purchase of the company's lines in the city proper. Detroit will pay $31,500,000 for these properties, which is more than sufficient to cover outstanding notes and bonds, and the above issue is in addition a lien on large suburban properties that have not been taken over. There are only $7,500,000 bonds outstanding, whose claims are prior to those of the consolidated 4½s. Interest charges have been earned at least one and a half times in each of the last seven years ended December 31, 1918.

Interborough Rapid Transit First Refunding 5s, 1966, have shown large market depreciation in response to the much advertised recent troubles in the New York traction situation. Owing to higher costs of operation net earnings have been cut down very materially in the past year or so, and dividends on the stock were passed last month. But at the present rate of earnings, interest charges on these bonds are being covered, though with only a fair margin, and the city's large interest in the lines, which claim upon earnings follows that of the Interborough, indicates strongly that the chances for the defaulting of interest are

TABLE I—SELECTED LIST OF ACTIVE TRACTION BONDS

Issue	Maturity	Approximate Price	Approximate Rate of Return
Maryland Electric Railways 1st 5s	1931	92 –93½	5.80%
United Railways & Electric 1st 4s	1949	70 –70½	6.20
Chicago City Railways 1st 5s	1927	82 –83	8.00
Detroit City Railways 1st cons. 4½s	1932	78⅞–80	6.90
Interborough Rapid Transit 1st and ref. 5s	1966	68	7.45
Manhattan Railway 1st 4s	1990	72	5.65
Kansas City Railways 1st 5s	1944	72	7.52
Pacific Electric Railway 1st 5s	1942	76½–77	7.10

quite remote. The issue looks like a good purchase for the long pull. The position of the I. R. T. Co. is practically unaffected by receiverships for Interborough Consolidated and New York Railways.

MANHATTAN RAILWAY FIRST 4s, 1990, are an absolutely high-grade bond. They are secured by a first lien upon all the elevated lines in New York City (Manhattan and Bronx). Their interest is guaranteed under virtually a perpetual lease by the Interborough Rapid Transit Co., but total interest charges have been earned from about four to five times for a number of years. The bonds are now at about the lowest point since 1900, and considering that they yield close to 5¼%, are among the most attractive bonds of this kind to be had in the market.

KANSAS CITY RAILWAYS FIRST 5s, 1944, are secured by a first mortgage on all the properties of the company, which took over the street railways of the old Kansas City Railway & Light after a thorough reorganization, establishing very satisfactory relations between the city authorities and the road. The property has been doing well since. Total interest charges have been covered by a margin of about 40% since the close of the 1915 fiscal year, June 30. The present franchise of the road expires in the same month as the bonds, but according to the terms of the agreement between the city and the company, the franchise can either be extended or the road can be taken over by the city or its licensee upon payment of the capital value. The second 6s, while not so well protected as the first 5s, appear secure and look like an attractive business man's investment.

PACIFIC ELECTRIC RAILWAY FIRST 5s, 1942, are a well-secured issue. They are an underlying lien of one of the principal electric properties of the Southern Pacific Co. The street railway has a very heavy bonded debt, and has not been showing very satisfactory earnings, but this issue is pretty close to the ground, and considering that the road is part of the Southern Pacific system, it should prove a good investment for income return, which in a more normal bond market should see better prices. Current quotations are about sixteen points higher than the 1918 low price, but are still nearly four points below the low record in 1917.

TABLE II—SELECTED LIST OF LESS ACTIVE BONDS

Issue	Maturity	Approximate Price	Approximate Rate of Return
Kansas City Railways 2nd 6s	1944	77 –82	8.00%
Knoxville Traction 1st 5s	1938	90	5.90
Los Angeles Railway Corp. 1st cons'd 5s	1938	83¼–86	6.45
Louisville Railway General 5s	1950	80 –82½	6.45
Monongahela Valley Traction 1st 5s	1942	84 –85	6.25
Montreal Tramways 1st and ref. 5s	1941	84½–87½	6.20
Northern Texas Electric Coll. trust 5s	1940	80 –85	6.52
Schenectady Railway 1st 5s	1946	85 –88	6.00
Tampa Electric Railway 1st 5s	1933	88 –93	6.00
York Railways 1st 5s	1937	89 (asked)	6.02

MARKET STATISTICS

		Dow, Jones Avgs.			50 Stocks		Total	No.
		40 Bonds	20 Ind.	20 R. R.	High	Low	Sales	Issues
Monday, March	10	77.65	87.43	84.96	77.27	75.89	1,230,600	266
Tuesday,	11	77.53	88.10	85.81	77.51	76.16	978,400	259
Wednesday,	12	77.57	88.30	85.47	78.12	76.82	1,238,700	265
Thursday,	13	77.64	88.18	85.26	77.35	76.20	1,170,300	234
Friday,	14	77.55	87.87	85.00	77.27	76.37	1,026,400	237
Saturday,	15	77.55	87.68	84.73	76.84	76.27	546,500	214
Monday,	17	77.52	88.41	84.73	77.15	76.11	1,162,900	247
Tuesday,	18	77.54	87.87	84.61	76.94	76.16	1,015,300	233
Wednesday,	19	77.44	88.26	84.61	76.92	75.88	931,600	243
Thursday,	20	77.31	87.81	84.03	76.45	75.51	866,800	229
Friday,	21	77.15	89.05	84.26	76.97	75.91	1,255,000	235
Saturday,	22	77.12	88.66	84.21	77.12	76.34	594,800	214

The A B C of Bond Buying

How the Ordinary Investor May Judge Bond Values

XIV—Factors Affecting the Value of Second-Grade and Speculative Issues

By G. C. SELDEN

IN THE last three chapters (appearing in our issues of December 21, 1918; February 1, 1919; and March 1, 1919) a number of factors have been mentioned affecting the general movements of bond prices, such as the accumulation and dissipation of capital over long periods, the price of capital, money rates, changes in the general level of commodity prices, and the Major and Minor Trade Cycles.

Something further needs to be said, however, in regard to the extent to which these various influences affect the three classes of bonds—high grade, second grade, and speculative (see classification in Chapter VII, September 14, 1918). There are also other factors which affect especially the second-grade and speculative issues.

Money Rates and Low-Grade Securities

If a bond is so high-grade—that is, if it is so abundantly protected by earnings and assets—that payment of its interest and principal is certain, there is then no logical reason why its price should be influenced by *any other factor* except changes in the general rate of interest obtainable for the use of capital. This factor would include the price of investment capital, the money rate (since some bonds are carried on borrowed money), and broad changes in the level of commodity prices, which soon affect the price of investment capital.

With such a bond, everything affecting earnings and assets should logically be ignored, since we have assumed that interest and principal are certain to be paid. The rate of interest and date of maturity of the bond being fixed, there is nothing left to affect the price except the relation of the bond's yield to the return that can be obtained from other investments.

On the other hand, if we drop down the scale in the grades of securities until we reach a bond on which the interest is in default and likely to be for some years to come, and whose owner has paid for it in full, we find no logical reason why the price of that bond should be influenced in the least by the general rate of interest. Its price should depend entirely upon the assets behind it and upon the prospect for the rehabilitation of the company. It pays no interest, and if its owner is not paying interest for money to carry it, the whole question of rates of interest is eliminated.

In between these two extreme grades of bonds, both factors—changes in the general rate of interest and changes in the earnings and outlook for the company—will operate in varying degrees, according to the grade of the security under consideration. The higher the grade of the bond the greater will be the effect of the general interest rate on its price, and the smaller the effect of the earnings and prospects of the company, the lower the grade, the smaller the effect of the interest rate and the greater the effect of the company's prospects.

I have said that *logically* these extreme high and low grades of bonds should be influenced only by the factors mentioned. But since most investors are not strictly logical, even the best bonds are likely to sympathize slightly with the general movements of the bond market. And low-grade bonds not only sympathize in a similar way, but often some of them are being carried on borrowed money,

so that the money rate affects them in that way.

Broadly, however, we may say that high-grade bonds are affected chiefly by the rate of interest on investment capital, low-grade bonds chiefly by the prospects of the company issuing them, and second-grade or intermediate bonds partly by the one factor and partly by the other.

Effect of Trade Conditions

When we come to changes in the general condition of trade, we find that they affect high-grade bonds almost solely through the influence of business activity upon interest rates; but they affect second and low-grade bonds not only in that way but also through the influence of business activity upon the earnings of the companies.

A good illustration is found in the recent action of U. S. Realty & Improvement 5s in March, 1918. These bonds, although of short maturity (1924) and paying their coupons regularly, sold at 45, making their yield to maturity around 20% annually. A year later they sold at 74.

Manifestly the general rate of interest on capital had nothing to do with this change. The current money rate had some influence, since many of them were carried on borrowed money. But most of the advance in price was due to the great change in the renting, construction and real estate outlook in New York.

The influence of the Minor Trade Cycle on the prices of second-grade and speculative bonds is especially important—so important, in fact, that these bonds should rarely if ever be bought for permanent investment at a time of great business prosperity throughout the country, since at these times their prices are almost certain to be relatively high.

Second and lower grade bonds sympathize strongly with the general movements of the stock market. Examine any chart of stock prices over a period of a dozen or more years and you will see that the market has a fairly regular swing from low to high and back again. This is the "Minor Cycle" as reflected in stock prices. It is highly desirable to select your second-grade and speculative bonds during that period of the cycle when prices are at a low level.

When the next era of high prices comes, it may be that second-grade bonds will have graduated into the first-grade class, in which case they might be held or not, according to the general bond prospect. But in case they are still second-grade or speculative, it is best to take advantage of the high price level to shift funds into high-grade bonds or short-term notes, since the investor is very likely to have an opportunity a year or two later to buy back the lower grade issues at considerably lower prices.

These swings are often pretty wide. In the panic of 1907 bonds of this class suffered severely. Or to take later illustrations, the Frisco adjustment 6s sold at 89½ late in 1916 and at 53¼ about a year later, while the Seaboard adjustment 5s sold at 68 early in 1917 and at 42 in the latter part of the same year. Chesapeake & Ohio convertible 4½s, analyzed briefly in a previous chapter, sold at 86½ early in 1917 and at 65½ in December of that year, in spite of the road's excellent prospects and earnings, which had their due effect in a rebound to 85½ in November, 1918.

The best opportunity for the exercise of skill in the choice of bonds that will grow in value as well as pay a good rate of interest, comes after the downward swing of the Minor Cycle, when liquidation in the stock market is nearly over and liquidation in general business is well under way. At such times there are always a good many second-grade and speculative bonds which have fallen sharply and which at the moment are not very strongly protected by earnings, but which have behind them progressive, expanding companies.

Such companies are not necessarily new ones, although in many cases they will be. A company of long standing may often meet unfavorable factors in its business which temporarily reduce its earnings, and still be well

able to "come back" strongly in the next period of improving general trade. And there are lines of business in which earnings always fluctuate sharply, being large in good times and small in dull times. This is especially true of companies whose business is identified with new construction, since construction comes pretty much to a standstill in periods of depression.

Selecting Bond Bargains

The investor may be sure, in times of dull business, that *some* bonds of this class are going to advance very sharply when conditions improve. The difficulty lies in picking these bonds out. To do that successfully he needs all the information he can get, and the more he knows about the principles of investment, the past earnings and the present position of different companies, and the outlook in different lines of business, the better his selections are likely to be.

He should begin by compiling a list of high yield bonds—those, for example, yielding more than 6½%—which are quoted on the stock exchanges or curb markets of the country or, if unlisted, have a fair market over the counter. He should next examine the income accounts and balance sheets for the last ten years of the companies issuing these bonds, to see what earnings have been available for bonds, how and why earnings have risen and fallen, what part of the earnings has been used for the improvement and expansion of the business and what part has been charged off to keep up maintenance, reserve funds, etc. If he distrusts his ability to do this he can easily get assistance from THE MAGAZINE OF WALL STREET or other sources.

In the case of new companies this information will not run back ten years, and for that very reason the bonds of new companies are likely to be better bargains than older bonds, provided trustworthy information can be obtained about them.

He will next consider the character of the company's management, its financial connections and its general efficiency in handling its business. But he should not allow himself to be overawed by influential banking affiliations alone. These are highly desirable, but many a company thus backed has gone on the rocks nevertheless.

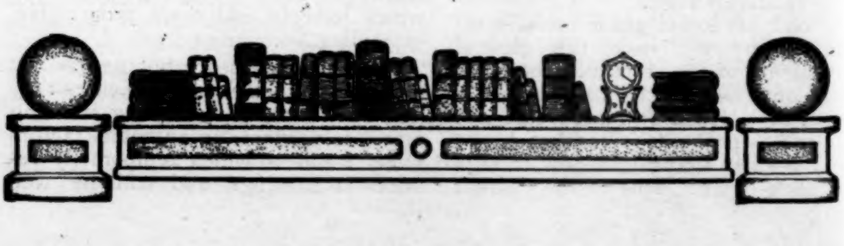
Then he will pass to the consideration of the prospects for activity in the line of business the company follows. This is a question of information and judgment.

All this, of course, is not easy—if it were we might all be millionaires. But, on the other hand, it requires no special qualifications beyond an ordinary knowledge of bookkeeping methods, a willingness to keep posted and to observe very closely, independence enough to ignore the crowd, and faith enough to follow one's own conclusions.

Most investors find it easier to pick growing bonds than growing stocks, as they are not so much at the mercy of the conflicting winds of temporary speculative influences.

Some knowledge of the customary behavior of the Minor Cycle is essential. That would take us outside the field of these articles. An excellent book on that subject is "Tidal Swings of the Stock Market," by Scribner Browne.

(*To be continued*)



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A letter enclosing stamped self-addressed envelope will bring you a PERSONAL reply to an inquiry on any security in which you are interested. This Investor's Personal Inquiry service is free to yearly subscribers.

LIBERTY BONDS

Next Issue to Be Notes

Liberty Bonds, next issue, will probably be 4¼% and so far as we can judge, will be in the form of short term notes, due serially, the maturities being between 3 and 5 years.

If this should come to pass, the old 3½s would not be convertible into the new issue, as they are only convertible into any subsequent issue of *long term bonds*.

It might be well for you to hold your 3½s, temporarily, as we do not expect much of a decline in them, if any, and later you may, if necessary, exchange them for 4¼s. They are absolutely tax exempt.

TEXAS PACIFIC LAND TRUST

Status Defined—Certificates Attractive

The unsold land in Texas Pacific Land Trust amounts to 2,120,614 acres. The average price received in recent years has been $7 per acre, representing a steady advance from $2 to $3 at which the land was sold years ago. The discovery of Ranger has stimulated the value of land in adjoining countries. Estimating the value of unsold lands at $7 per acre, we find potential values in these holdings of $14,844,298. This is disregarding royalties which may come from oil lands which the company holds, or the sale of such properties eventually. In addition assets (cash and bills) total $1,075,732, making the combined valuation (regardless of oil values) $15,920,030; over $600 a share on the 26,007 certificates outstanding.

Quoting the 1918 report: "Oil interests are confined to the Ranger field. While the Trust never owned lands in that county, holdings in adjoining county of Palo Pinto are 6,671 acres, and in Stephens Counties 3,777 acres and in both there is much "proven field," and considerable oil production. No Trust lands in Palo Pinto or Stephens Counties have been sold or disposed of for a dozen years or more; titles have not been parted with, in view of their enhancement in value by reason of possible discovery of mineral. All your lands in the two counties, with exception of 640 acres in Palo Pinto are covered by outstanding oil and gas leases. There is no oil production on any of the Trust lands as yet; such wells as are being drilled on same have not reached a depth at which it is hoped or expected to find oil." (This was in February.)

The policy of the trustees has been to employ income to buy in the outstanding certificates instead of paying dividends, and it is obvious that with the increasing value of the assets and the steadily reduced number of certificates, this is a promising long time speculative investment. It is unique. Some of the largest holders would not sell their certificates at any price. We recommend their purchase to those who are willing to put them away for a few years with every prospect that the market value will steadily enhance, either as the result of liberal dividends or the retirement of certificates or both. Certificates are listed on the N. Y. Stock Exchange. The market for them is inactive, 240 bid, 290 asked.

WESTINGHOUSE ELECTRIC

Prospects in Peace Good

All indications point to a continuance of the present annual 7% dividend on Westinghouse Electric Common. The company has been very busy on war orders and undoubtedly its revenues from this source have been curtailed since the signing of the armistice, but the strictly commercial orders are stated to be very large and the income from Westinghouse's investment has amounted to about $1,000,000 in each of the last two years. The common stock is preceeded by a very small bonded debt and only about $4,000,000 of 7% preferred stock and has large equities in the properties. Net quick assets amounted to about $80 per share (par $50) at the end of the last fiscal year. The ultra-conservative character of the management is shown in the fact that while the common stock has earned on the average of 11.07% annually in the last ten years, directors have distributed on the average only 3.15% per annum. The other money has been turned back into the property with clearly satisfactory benefit to stockholders.

U. S. STEEL PREFERRED

A Very Attractive Issue for Special Requirements

United States Steel preferred is the peer of industrial preferred stocks in point of safety and marketability, and can safely be compared with such high-grade issues as Norfolk & Western preferred and Chicago & Northwestern preferred. The price of the stock discounts its unique position in some considerable degree, however. At present prices of about 115, the issue yields 6.10%, which is more like the rate of return on the better

The sheet of paper which contains your investment inquiry should contain nothing else. Careful attention to this requirement will enable us to handle your inquiry more speedily and accurately.

secured bonds than on industrial preferred stocks. There are a number of very substantially secured industrial senior stocks of wide marketability that would bring you a larger return on your investment, and if you are interested in such, we would call to your attention Bethlehem 8% preferred and Willys-Overland preferred. These issues yield about 1½% more than an investment in United States Steel preferred. Still, if you are primarily interested to be in a position to liquidate with almost a minimum chance of market loss, Steel preferred is the issue.

NEW YORK, CHICAGO & ST. LOUIS DEB. 4s, 1931

A Well Secured Bond Offering Further Possibilities

The above bonds are quoted around 72½-75, at which price they yield about 6.55% on the money. At these prices they are an attractive holding for income return, and with conditions for the railroads and in the bond market more normal, they should see somewhat higher levels. The road has shown a decided improvement in earnings since the close of the 1915 fiscal year. Total interest charges have been earned on the average of twice over in each of the last three years. While this issue is only a debenture and is not secured on any specific property, it is a direct obligation of the property subject to only $21,000,000 of first 4s and equipment trust obligations. The company has been paying full 5% dividend consecutively on $18,350,000 first preferred stock since 1915 and made annual disbursements of 2½% on $20,000,000 second preferred in 1916 and 1917, but owing to the adverse effects of high operating costs, from which practically all roads have been suffering, the directors, prompted very largely, apparently, by conservatism, passed the payment in July, 1918. Since the beginning of the current year both gross and net earnings have been on the upward grade.

ROYAL DUTCH

Difference Between "New York" and "American" Shares.

The market at this writing shows a weak technical position which must be corrected by a substantial reaction now under way. We would suggest you taking profits in the rubber, tire, tobacco, sugar, motor and steel stocks which can be realized at a profit. We favor holding or averaging the copper stocks and the good rails.

Royal Dutch Petroleum has good investment value, but we are inclined to believe that those who sell now will be able to repurchase at a lower and more attractive level. There is no difference in intrinsic worth between that stock that sells on the N. Y. Stock Exchange and that on the N. Y. Curb formerly. The N. Y. Stock Exchange is called "American shares" while the former Curb stock is called "N. Y. stock." There is no real difference, so far as the investor is concerned. *The difference* lies in the fact that the American shares are a good delivery on the Amsterdam Exchange. New York shares are not acceptable in Holland.

REPUBLIC IRON & STEEL

A Semi-Investment Only

Republic Iron & Steel is a semi-investment only. With earnings at the rate of approximately around $18.95 a share for the first six months of 1918, $51.88 a share in 1917 and $47.67 in 1916, it might appear on first thought that the stock is selling low, but the permanence of these earnings seems to be doubtful. Republic for the five years prior to 1916 averaged only $2.26 annual earnings a share. This was not a good showing.

As a consequence, the company has suffered heavily through excess profits taxation. However, it does not appear probable that the company's earnings will fall to the low figures of the pre-war period, because of the large sums which have been put back into the property from its recent earnings. While its earnings are in excess of dividend requirements, we do not look for a payment of any larger dividend this year. The company requires large sums to carry its inventories and seems to be conserving its cash resources rather than using them to pay large dividends.

COLORADO & SOUTHERN

Earnings on Common Large

Under the original Sims Act the Standard annual compensation for the roads taken over by the Government was fixed at the average of the net operating incomes shown by the roads in the three fiscal years ended June 30, 1916. In the case of the Colorado & Southern System, as you state in your letter, the annual compensation guaranteed to the road while operated by the Federal Government under the present authority is about $4,724,965.

From this sum there must be deducted fixed charges which amount to about $3,500,000 annually, leaving $1,224,965 for the payment of dividends. Each preferred stock issue is outstanding to the amount of $8,500,000 or $17,000,000 for both. Deducting 4% of this sum from $1,224,965, the amount remaining for the common is about $544,965, or at the rate of around $2 per share. It is worthy of note, however, that the present rate of earnings on the common is close to $15 per share.

NORTHERN PACIFIC

A High-grade Railroad Investment

Northern Pacific is a high-grade railroad investment and under the plan of Federal guarantee will have 9.5% available for dividends compared with its present dividend of 7%. At around 93, we consider the stock an investment bargain and it possesses possibilities of selling well above par sooner or later. The company is earning its dividend by a good margin, and its earning power is continuously on the increase.

PHILADELPHIA COMPANY

Its Complicated Structure

You must realize that in the space allotted for an analysis of a given company in the magazine, it is not possible to include a large number of facts that would probably be required by an investor of your type, especially, when most of your investments are made for estates, etc.

The Philadelphia Co. is so complicated in its financial structure that an analysis covering every page of an issue of THE MAGAZINE OF WALL STREET would probably fail to cover all of the important points that should be treated. For this purpose THE MAGAZINE OF WALL STREET maintains an extensive statistical and investigating department and reports on particular companies are made in detail when requested.

The present writer happens to be the author of the article you refer to, and fails to see where your criticism is justified. If you will glance over the article again you will find on page 755 I said "there has been considerable dispute as to whether the company should have allowed such large disbursements on the common stock in face of its liberal capitalization. A more conservative policy would have been to write off some of the bonded indebtedness, thereby laying a stronger foundation for the future." The article goes on to show that the working capital position of the company is not so strong as it might be, also that its cash position could stand considerable strengthening.

The "proof of the pudding is in the eating" and since this story was written the stock has advanced considerably and, furthermore, bankers responsible for this issue have advised THE MAGAZINE OF WALL STREET that many of the *strong points* in the Philadelphia Co. situation were omitted from the analysis published.

It is true the Philadelphia Co. management has been a party to doubtful financial transactions in the past, but I happen to know that some of the strongest banking interests in the country are now behind this company and the past should not be taken as a criterion for future actions.

OWENS BOTTLING MACHINE

Strong Investment Rating

While the regular dividend is 3% quarterly, or 12% annually on par of $25, the company has a record of extra dividends second to none. It paid 50% extra in stock in 1911-1912—33⅓% in stock in 1913-1914, 25% in stock in 1914-1917, 20% in stock in 1916 as well as 8% extra in cash in the latter year and four extra cash dividends in 1917 of 2% each. The common stock, selling around $60 on the basis of "extra" yields nearly 9%. The 20%, paid in 1917, was earned nearly twice. The business was started by N. J. Owens of Toledo, Ohio, in 1903. Today all bottles, from the smallest medicine vials to the largest of carboys, are made by the Owens Machine. These are rented to other manufacturers on a royalty basis. The annual rental paid by independent companies is approximately $12,000 a year per machine.

This security is entitled to a high standing and should eventually sell above its present market. We regard it, therefore, as a good long pull speculation, but believe anyone who buys it now should be prepared to carry the stock through a decline.

MIDWEST REFINING

Has Large Resources

Midwest Refining has made a remarkable record during the past three years, and it undoubtedly has large resources, and is a substantial and efficiently managed concern in every way.

The company undoubtedly possesses a good property, and in time the stock may be worth considerably more money, but it is now selling rather high. With the prospect that profits will be reduced by taxation, curtailing of gasolene consumption, and with the stock selling on a very small income basis (dividend $4 a share), we do not regard the shares as attractive. It is unlikely that the dividend will be increased in the near future either in cash or stock.

WABASH PFD. A

An Attractive Low-priced Rail

Wabash pfd. A is, of course, a non-cumulative 5% issue whose dividend is paid only when earned. We believe, however, that at these prices the shares have discounted the uncertain features in the railroad situation and that by holding you will be able to sell to somewhat better advantage.

Butte & Superior is still under suit by Minerals Separation Co. The matter being a highly involved legal and metallurgical question, we prefer not to express an opinion at this period. The earnings of the company are extremely unsatisfactory, as the company was war prosperous due to high earnings of between $30 and $50 a share, realized out of the war prices for spelter. We would not recommend this stock at present. In its stead, we would prefer Willys-Overland which pays $1 dividend and earns it by a very large margin. B. & S. *might* rally, but the chances are somewhat doubtful.

NEW YORK & ERIE 1st 4s, 1947

A Sound Investment

New York & Erie 1st 4s, due 1947, are a high-grade issue. In fact, they are closest to the ground of any of the Erie issues outstanding. They have not as much of a market as the amount outstanding is about 2¾ million dollars. We note a quotation of 81⅛ bid.

Industrial Earnings, Dividends and Income Yields

In view of the wide discrepancy between present industrial earnings and last year's—chiefly because of the unsettled conditions resulting from the war—our usual "Bargain Indicator" has been modified as below. The *dividend rate* given covers regular declared dividends on the yearly basis. Extra or stock dividends are noted from time to time in the comment column on the right, which also summarizes important price-affecting factors. The *yield on price* is based on regular dividends and the last reported sale or bid price before going to press. A minus sign before earnings' columns indicates a deficit for the year in dollars per share.

INTENDING PURCHASERS should make careful Comparisons, including former years. They should also read the Financial News and Comment for additional information. If a yearly subscriber, our Inquiry Department may be consulted.

Companies Which Have Reported for 1918

	Dollars Earned Per Share.					Present Div.	Recent	Yield on	
	1914.	1915.	1916.	1917.	1918.	Rate	Price	Price	
Am. Agricultural Chemical com	7.68	10.96	20.57	21.11	35.01	$8	107	7.48	Has good prospects.
Am. Beet Sugar com	1.01	7.50	14.30	30.55	10.58	8	75	10.67	Hope placed in 1919 earnings.
Am. Cotton Oil com	1.98	7.05	6.99	4.56	5.14	4	49	8.16	Earnings increase.
Am. Hide & Leather pfd	0.85	7.38	12.64	13.56	18.35	7	95	7.37	Plans for distribution of back dividends discussed.
Am. Linseed pfd	1.83	6.01	8.83	12.82	12.77	7	89	7.87	Earnings showing up well.
Am. Locomotive com	1.30	—13.00	36.07	21.81	16.64	5	67	7.46	Showing good returns.
Burns Bros. com	8.40	12.11	10.03	21.27	18.35	10	143	6.99	Large expansion program.
Crucible Steel com	—2.94	5.39	45.89	42.13	48.25	0	67	0.00	Operations curtailed.
General Chemical com	18.73	44.27	86.76	55.19	37.03	8	185	4.32	Products in demand.
International Nickel com	3.40	4.44	6.83	7.78	23.18	2	25	8.00	Conservation policy.
Maxwell Motor com	0.30	5.33	29.10	29.62	5.71	0	39	0.00	Cars in demand.
National Biscuit com	11.74	9.52	8.19	9.87	11.63	7	125	5.60	Earnings large.
Sears, Roebuck com	21.31	17.57	26.14	19.29	17.63	8	177	4.52	Business increasing.
Virginia-Carolina Chemical com	3.40	7.55	10.39	10.92	24.24	4§	58	6.90	Excellent prospects.
Westinghouse Electric com	5.35	2.43	10.22	12.56	10.68	3½	46	7.61	Earnings up.

NO 1918 EARNINGS REPORTED

	1913.	1914.	1915.	1916.	1917.				
Allis-Chalmers pfd	4.77	—0.15	6.80	19.97	17.04	7	90	7.78	Consistent earning power.
Am. Can com	2.66	3.61	5.20	12.31	21.84	0	49	0.00	Dividend possibility.
Am. Car & Foundry com	4.10	5.53	0.77	2.39	27.36	8	90	8.89	Earnings well maintained.
Am. Smelting & Refining com	7.47	6.51	16.80	31.79	24.14	4	68	5.88	Better conditions helpful.
Am. Steel Foundries	6.01	—1.35	—1.20	19.89	30.19	7§	81	8.64	Earnings fair.
Am. Sugar Refining com	—0.25	2.90	4.99	18.46	20.09	7**	123	5.69	Earnings increase.
Am. Tobacco com	28.12	21.04	20.06	22.70	25.21	20	200	10.00	Increasing output.
Am. Woolen com	—9.89	—0.06	6.40	15.31	40.42	5	52	9.62	Labor troubles.
Am. Zinc com	—4.65	1.82	54.92	139.52	11.08	0	12⅛	0.00	Earnings on the decline.
Anaconda Copper	2.61	1.89	7.16	24.85	17.04	6	61	9.84	Operations curtailed.
Baldwin Locomotive com	13.09	—5.25	7.14	22.91	40.22	0	88	0.00	Foreign orders coming in.
Barrett Co. com	15.61	10.31	21.19	32.84	20.54	7	124	5.65	Earnings well up.
Bethlehem Steel com	27.50	32.60	112.50	286.30	43.20	5§	67	7.46	Preparing for new business.
Butte & Superior	3.47	5.21	33.37	31.79	.94	0	20⅛	0.00	Minerals separation suit in progress.
California Petroleum pfd	11.74	11.54	7.80	8.44	12.41	7	70	10.00	Paying off back dividends.
Central Leather com	5.18	6.41	10.82	33.14	30.42	5§	71	7.04	Peace outlook not bright.

Central Leather com	5.18	6.41	10.82	33.14	30.42	5§	71	7.04	Peace outlook not bright.
Chino Copper	3.51	3.44	7.67	14.40	11.27	4	34	11.76	Lower prices of copper show effect.
Colorado Fuel & Iron com	3.21	4.79	4.58	5.97	11.15	3	43	6.98	Output decreased.
Continental Can com	4.88	10.69	12.05	22.38	32.63	6	80	7.50	Earnings decrease.
Corn Products Refining pfd	7.66	7.73	10.62	20.39	38.05	7	107	6.54	Fairly well fortified.
Cuba Cane Sugar com	.....	.....	.....	17.36	7.63	0	24	0.00	Expect good crop.
Distillers' Securities	1.17	2.28	4.64	10.30	14.83	2§	65	3.08	Manufacturing food products.
General Electric	12.88	11.12	11.57	18.31	26.50	8	157	5.10	Showing good return.
Goodrich (B. F.) com	.83	5.62	17.17	12.76	14.50	4	67	5.97	Outlook good.
Great Northern Ore	.71	.54	.70	1.39	—1.50	0‡	43	0.00	Showing good earning power.
Greene Cananea Copper Co.	2.33	1.97*	1.04	7.03	5.05	6	42	14.28	Operations curtailed.
Gulf States Steel com	.....	.....	10.17	30.25	34.83	4	56	7.14	Dividend reduced.
International Agricultural Corp. pfd	.....	0.65	—7.47	9.80	9.31	5	66	7.58	Bright outlook.
International Mer. Marine pfd	4.44	.....	26.26	42.10	22.72	6	112	5.36	Extra disbursement possible.
Mexican Petroleum com	11.22	4.78	4.93	15.79	10.23	8	183	4.37	Mexican situation clearing.
Miami Copper	1.75	1.65	4.55	10.39	6.63	4	22	18.18	Outcome of Minerals Separation Suit awaited.
Midvale Steel	.....	.....	1.44	31.46	35.58	6	45	13.33	Reduction in prices.
National Enameling & Stamping com	1.05	—0.32	2.02	11.67	23.39	6	51	11.76	6% dividend rate for 1919.
National Lead com	3.64	3.73	4.86	6.16	15.44	5	67	7.46	Shows large income.
Nevada Consolidated Copper	1.45	0.74	2.78	7.50	4.83	1½	15	10.00	Good long pull prospects.
New York Air Brake	6.55	6.41	13.43	82.15	18.94	10	110	9.09	Dividend reduced.
Pittsburgh Coal pfd	10.07	5.06	6.11	11.64	39.10	6	86	9.30	Output decreases.
Pressed Steel Car com	10.56	0.14	3.60	15.01	10.04	8	72	11.11	New orders coming in.
Pullman Co.	9.28	9.04	8.80	10.32	11.36	8	122	6.56	Earnings steady.
Railway Steel Spring com	1.31	—0.42	3.10	20.49	32.31	8	78	10.26	Showing good returns.
Ray Consolidated Copper	1.85	1.65	3.08	7.65	6.60	2	19	10.52	Operations curtailed.
Republic Iron & Steel com	4.97	.56	6.49	47.67	51.88	6	82	7.32	Decrease in earnings.
Sloss-Sheffield com	2.09	0.21	0.53	14.44	15.77	6	52	11.54	Earnings on the decline.
Studebaker Corporation com	3.12	12.79	27.46	26.14	9.11	4	62	6.45	Showing fair earnings.
Tobacco Products com	0.30	1.03	2.31	5.44	9.32	6	88	6.82	Acquiring new properties.
United Cigar Stores com	6.83	7.09	7.69	9.48	.....	9	132	6.82	Capital increase probable.
United Fruit	14.52	6.19	16.11	24.34	26.72	8	172	4.65	Earnings good.
U. S. Cast Iron Pipe pfd	4.52	0.29	2.55	10.91	11.18	5	21	23.81	Working on peace orders.
U. S. Industrial Alcohol com	1.94	1.94	14.60	36.13	54.67	16	142	11.26	Earnings continue fair.
U. S. Rubber com	10.61	9.18	10.80	17.75	28.77	0	84	0.00	Conservative policy.
U. S. Smelting & Refining com	5.36	1.60	13.93	20.46	5.14	5	49	10.20	Earnings continue fair.
U. S. Steel com	11.02	.....	9.96	48.46	46.29	5§	95	5.26	Tonnage on the decline.
Utah Copper	5.38	5.34	11.03	24.46	18.46	6	71	8.45	Dividend reduced.
Willys-Overland com	4.63	3.75	12.56	5.75	3.16	1	29	3.44	New properties showing up well.
Woolworth (F. W.) com	10.82	10.87	13.19	15.57	16.72	8	125	6.40	Showing large earnings.

**3% extra in quarterly installments of ¾% each. § Extra dividends. ‡ No regular dividend. Has made two distributions of $1 each and two of $2.

Industrial Balance Sheets

Before and After the War Comparisons—Steady Growth of Equities Contrasted with Market Fluctuations—Important Companies Discussed—Melon Prospects

By BENJAMIN GRAHAM

FUTURE historians of the securities market during the war will not fail to emphasize the total lack throughout this period of any real standard of investment value. The relations established between price and earnings, and price and assets, have been remarkably inconsistent and illogical.

Now that the great drama is practically ended, we are enabled to determine the war's effect on the financial position of the industrials—and incidentally to note the sharp contrast between the steady development of new equities and the widely fluctuating market movements which accompanied it.

The writer has compared the 1918 with the 1914 reports of a number of important companies, in order to determine—

1. How much has the tangible value of the stock increased?

2. What has been done with these additional assets?

Table I should answer these questions in a clear and impressive fashion. It shows what changes have occurred in surplus and reserves during the past four years, and exactly how these undistributed earnings have been used—to what degree for plant extensions, for working capital, or for the reduction of bonded debt and preferred stock.

This data is supplemented by Table II, which is briefer but perhaps more striking. Here is set forth the ratio of the increase in surplus and reserves to the present market price of the stock, and the change in asset value since 1914 is also compared with the change in market value. It will be seen that some issues are actually selling for less than the amount laid aside during the war period, and in many cases three-quarters of the current quotation is represented by these additions to surplus.

Expansion in Fixed Assets

If we examine the table as a whole, we are impressed first of all by the moderate expansion in fixed assets. Despite the tremendous increase in gross business during the war, one-quarter of the companies report an actual decrease in plant account for the period. Moreover, a good part of the increase is offset by additions to the depreciation reserve. There are sporadic exceptions to this rule, of course. Bethlehem Steel in this respect, as in so many others, requires a special classification. But in general we observe how reluctant have been these companies to tie up a large part of their profits in brick and mortar: and, where additions have been necessary, to charge off as much as possible of their cost against the year's operations.

The majority of these enterprises have applied a goodly portion of their profits to the retirement of funded debt.

By far the greatest share of the surplus earnings, however, has been added directly to working capital. How significant has been the growth of net current assets in recent years is evident from the fact that increases in this item equivalent to $40 to $50 a share are by no means unusual; and that from 1914 to 1917 the working capital of the U. S. Steel Corporation expanded $232,443,000, or $46 a share.

Some time ago, nevertheless, the

writer pointed out in an article on "War Taxes and Dividends," in The Magazine of Wall Street, that net current assets and cash assets often stand for very different things. It is not only possible, but quite usual, that a company should report a huge increase in working capital, and at the same time find itself in a much less comfortable cash position. The reason for this distinction lies in the inventory, which is always regarded as current, but is decidedly not *cash*. At this moment the inventory carries at once the hope and the fear of the stockholder, because upon its succesful liquidation his future prospects in large measure depend.

The headlong growth of inventories has led staid, self-contained enterprises to borrow for the first time from the public and the banks, and through this fact companies whose boast it was never to owe beyond the month's accounts, now exhibit current liabilities running into the millions. For one third of the companies analyzed in Table II the growth in inventories has more than accounted for the entire increase in surplus.

The possibilities of this situation are immensely interesting. At the end of 1918 the stock of goods held by the typical industrials exceeded three or four times the pre-war figure. Certainly there will be no need to carry such enormous inventories as a permanent policy; the energies of the management must now be directed to their liquidation. But how soon, and at what prices, can this operation be accomplished?

TABLE I—BALANCE SHEETS DECEMBER 31, 1918, COMPARED WITH DECEMBER 31, 1914 (000s omitted)

Company	Fixed Assets Inc'd	Net Cur'nt Assets Inc'd	Inventory Inc'd	Stock Inc'd	Bonds Inc'd	Reserves Inc'd	Surplus Inc'd
American Can	$5,956	$12,765	$26,522	...	—$2,119	$5,196	$15,644
American Linseed	1,506	3,275	...	...	— 315	383	*4,713
Amer. Locomotive	—7,994	13,974	21,447	...	— 298	[1]1,000	6,278 [2]2,595
Amer. Steel Fdries.	557	5,825	4,344	...	— 3,447	...	9,829
Bethlehem Steel	158,366	68,059	68,465	$74,586	108,538	—7,198	50,499
Central Leather	—5,364	27,565	20,715	...	— 4,425	4,168	22,458
Chandler Motor	851	2,471	1,251	...	...	113	*3,209
Cluett Peabody	854	1,528	6,790	—1,000	...	3,382	...
Continental Can	7,028	1,580	7,612	4,984	...	1,581	2,203
Distillers	—11,750	6,763	2,800	—1,806	— 8,985	5,804	...
Goodrich	6,556	24,433	23,657	—3,600	...	3,547	*31,042
Internat'l Paper[3]	—2,095	4,828	5,217	4,611	— 7,758	1,003	4,067
Kelly Springfield	1,938	5,922	4,150	— 346	— 270	...	*8,477
Nat'l Cloak & Suit	351	3,030	7,997	— 570	...	675	3,276
Pittsburgh Coal	2,834	13,461	—888	9,097	— 4,948	...	*12,146
Pressed Steel Car	700	3,582	2,478	...	...	...	4,212
Railway Steel Spr'gs	—5,010	6,493	3,770	...	— 6,628	1,703	6,408
Republic Iron & Ste'l	18,335	18,165	5,860	...	— 2,658	10,650	28,508
Sears Roebuck	19,763	12,403	34,257	35,000	...	...	—2,834
Tobacco Products[6]	813	4,814	...	2,600	...	786	*2,241
Underwood Typew't'r	583	3,680	822	— 200	...	...	4,463
U. S. Steel[4]	118,268	232,443	56,033	...	—46,187	45,441	351,457 [5]40,888
Vir.-Carolina Chem.	3,305	12,445	10,313	13	3,409	—174	12,502
Woolworth	7,531	4,365	7,411	—1,500	...	1,173	*12,223
Baldwin[7]	14,152	12,252	23,018	...	— 800	8,421	18,783
National Enameling.	1,841	6,319	3,084	...	— 588	2,050	5,898
Corn Products	31	11,508	7,339	— 573	— 4,712	596	16,228

* No provision for 1918 taxes. [1]Years ended June 30. [2]Added June 30-Dec. 31, 1918. [3]March 31, 1918, figures used. [4]December 31, 1917, figures used. [5]Added in 1918. [6]December 21, 1915, compared with December 31, 1918. [7]Restoring $15,800,000 charged off against good-will account and surplus. —Decrease.

The Various Problems

The public is familiar with the problem of the copper producers, saddled with increasing stocks of metal which can be disposed of only at a disconcerting loss. But here is Baldwin with $26,000,000 more of locomotive material on hand than in normal periods, and Sears, Roebuck with a merchandise stock $34,000,000 larger than before the war, not to mention a host of others. Strange and perhaps perilous transformation must be in store for their balance sheets!

It is evident that not all the companies are similarly situated with regard to inventory. The increases of Central Leather and Goodrich, for example, are tremendous, but they have been financed chiefly from surplus earnings. Current liabilities have grown, it is true, yet the increase is offset by additional cash or accounts receivable. The inventory is so much "velvet" therefore, representing the shareholder's winnings from the war game. He may not realize at face value or near it, but whatever it brings will belong to him. Within a very short time huge quantities of cash should begin to accumulate in these companies' treasuries—for the direct benefit, let us hope, of their fortunate stockholders.

But there are many industrials whose inventories have grown faster than their cash assets. In other words, they have been compelled to assume new liabilities, which can be paid off only through the sale of their products on hand. For such companies a 50% shrinkage in value—if that were possible—would prove a really serious matter. Some of these enterprises, such as Baldwin and presumably Bethlehem Steel, should be well protected by the cancellation clause in their war contracts. The status of the two Can companies is uncertain in this respect, especially since the increase of their merchandise account has been exceptionally heavy. It is to be noted

TABLE II—INCREASES IN SURPLUS DURING THE WAR PERIOD

Company	Market Price March 18, 1919	Increase Over Price Dec. 31, 1913	Surplus Increased 1914-1918 Per Share	Per Cent of Surplus Increase to Present Market Price	Per Cent of Surplus & Reserve Increase to Market Price
American Can	$47.00	$17.25	$38.00	80.8%	107.4%
American Linseed	48.00	38.00	28.00	58.3	63.3
American Locomotive	67.00	45.00	44.50	66.4	73.7
Am. Steel Foundries	80.50	53.25	57.25	71.1	71.1
Baldwin	88.00	50.00	93.75	106.6	154.4
Bethlehem Steel	65.00	35.50	85.00	130.7	112.3
Central Leather	70.50	43.50	56.25	79.8	94.7
Chandler Motor	126.00	....	45.75	36.3	37.6
Cluett Peabody	63.00	....	18.75	30.0	30.0
Continental Can	78.00	....	16.25	20.8	35.1
Distillers	64.00	46.00	18.00	28.1	28.1
Goodrich	67.00	43.50	51.00	76.1	88.2
International Paper	46.50	38.25	20.50	44.1	44.1
Kelly Springfield	111.50	....	43.25	38.7	38.7
Nat. Cloak & Suit	75.00	....	27.25	36.2	43.7
National Enameling	51.00	39.50	31.50	61.8	97.6
Pittsburgh Coal	49.00	31.00	37.75	77.0	77.7
Pressed Steel Car	71.50	44.50	34.25	47.9	47.9
Railway Steel Springs	77.50	52.25	46.00	59.2	74.2
Republic Iron & Steel	81.50	61.50	105	128.8	176.9
Sears Roebuck	179.00	—1.50	—3.75	...	...
Tobacco Products	88.00	....	12.75	14.4	19.4
Underwood Typew'ter	140.00	58.00	49.50	35.3	35.3
U. S. Steel	94.50	55.75	77.25	81.7	91.1
Woolworth	126.50	10.25	24.50	19.4	21.2
Corn Products	52.50	42.75	32.50	51.9	63.1

(See notes to Table I.)

that the corporations dealing in commodities for immediate consumption (Sears, Roebuck, Cluett Peabody, Woolworth, National Cloak and Suit) have found the financing of their growing business most difficult.

Notable Instances

Two issues attract attention because of a decline in their inventories. These are Distillers Securities and Pittsburgh Coal. The former already shows the effect of partial liquidation, with substantial reductions in both property and bonded debt. Pittsburgh Coal has placed itself in surprisingly strong condition. Its pre-war earning power was nothing to brag about; but with large accretions to its working capital it should make a different record in the future.

Much light is thrown by our Table on the reason for Bethlehem Steel's market collapse, in contrast with the relative firmness of U. S. Steel. Bethlehem has increased both stock and bonds enormously, the proceeds of which, together with all the acummulated profits, have gone into uncertain channels—plant extensions and inventory. Will these new facilities pay their way in normal times? Will the huge line of steel products be disposed of without undue loss? To these questions, despite Mr. Schwab's optimism, the market has vouchsafed a gloomy reply. U. S. Steel, on the other hand, comes out of the war with cash resources enormously enlarged, with bonded debt reduced, with only an 8% addition to plant account, and a 40% increase in inventory (using the Dec. 31, 1917, figures). For Bethlehem Steel it must be said, that heroic charges have been made against earnings for depreciation of its war-time extensions, and the $85 per share which has been added to surplus may turn out to represent tangible and not paper profits.

A Brilliant Exhibit

But of all the companies in the list, Republic Iron and Steel undeniably makes the finest exhibit. Its strength lies not alone in the expansion of its surplus by more than $100 per share, and of its reserves by another $40 per share. Equally important is the liquid form in which these earnings have been maintained—available for investment or distribution as occasion may require. There is recorded an increase in current assets—*exclusive* of inventory—equivalent to $50 per share. The large additions in plant are offset in good part by corresponding credits to depreciation reserve; yet it is well known that physically the corporation is far better equipped than ever before. It will be interesting from now on to compare Republic's production cost with those of the Steel Corporation, which it now rivals in relative financial strength. In fact, if it is borne in mind that Republic has only one-twentieth the capitalization of its great competitor, its progress as analyzed herewith must be deemed to have been even more brilliant. From the dividend standpoint, the Topping management "has said nothing and sawed wood." The fruits of this ultra-conservative policy should be apparent in the coming years.

To return to our original topic—the discrepancy between market movements and industrial conditions during the war—general comment has ascribed the recent price recovery to the expectation of a great business revival, to follow a brief readjustment period. If this is so, we might record still a fourth reversal of opinion—making peace a bullish argument after all. But when the light is finally thrown upon the conditions underlying last month's advance, it is more than possible that it will be found to be based, not so much upon the hopes of future prosperity, as upon the belated recognition of the tremendous benefits reaped by our industrials from the war. The typical corporation is now in such splendid condition that it can look beyond a temporary spell of depression to a new standard of earnings far in excess of the pre-war average.

Progress of Allis-Chalmers

Is There Hope for Common Dividends?—Immense War-Time Business—Status of the New Securities—Unfilled Orders—Company's Business Outlook

By JOHN MORROW

IT sometimes happens when widespread encouraging news accumulates regarding a corporation that results are disappointing. Reports of large earnings, growing assets, sound financial position and interesting prospects are not always forerunners of an earnest advance in market values.

Something like the above seems to have happened to the Allis-Chalmers Manufacturing Co. This company has been in corporate existence just about six years, having been incorporated in the spring of 1913 as the successor company to the Allis-Chalmers Co., which had defaulted upon its bond interest in 1912, and had gone into a receivership. When the company was reorganized the preferred and common shares were called upon for an assessment which raised something like $5,190,000 in cash.

The new Allis-Chalmers Manufacturing Co. was formed with a share capitalization consisting of $16,500,000 7% cumulative preferred and $26,000,000 common, with no funded debt. That capitalization stands today, there having been no change since 1913. From an earnings standpoint the new company was not, from the start, a success, and it was considered that perhaps the business was over-capitalized. As a result neither the preferred nor the common shares had a very interesting market, and their general position was not the best.

This period of indifferent earnings continued until 1915, when there was a substantial improvement and the returns for that year showed 6.80% earned upon the preferred shares, against a deficit of $25,000 for the year previous. Since 1915 there has been a steady yearly expansion of most respectable proportions. It is probably true that the war and the resulting boom in all lines of trade was primarily responsible for the big leap forward that Allis-Chalmers has taken.

Business Growth

A reference to Table I will show earnings from the inception of operations and from this may readily be traced the growing size of the business done, and the resultant improvement in the prospects for shareholders. During the first three years sales billed annually ran between $10,000,000 and $12,000,000. Business was steady enough, but not of a size that lent much encouragement to the possibility of dividends upon either of the stock issues. In 1916 sales billed had jumped to over $19,000,000, and in the year ended December 31, 1918, the total was in excess of $35,000,000.

TABLE I—ALLIS-CHALMERS' INCOME

Dec. 31	Sales Billed	Net Profit	Earned on Pfd. $ per Share
1913....	*$11,127,621	$755,125	$4.77
1914....	10,323,150	†25,068	....
1915....	11,666 413	1,078,352	6.80
1916....	19,440,509	3,165,020	19.18
1917....	26,129,317	4,010,491	24.74
1918....	35,031,234	4,625,866	28.00

* From April 15 to December 15.
† Deficit.

Naturally the margin of profit on the amount of business done is of great importance, and it is interesting to note that this margin did not stand still, but increased largely over the margin of the early years of operation. In 1914, for example, manufacturing profit was less than 11% of sales billed, whereas in 1918 it was almost 33%. In the same period the business done increased about 250%.

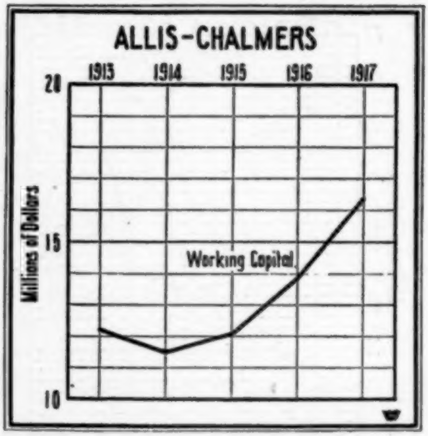
Another pertinent point is the change in the totals of unfilled orders. Back in March, 1915, when the start toward better things really began, the company had on its books $3,279,631 in unfilled orders. As of December 31, 1918, un-

filled orders totaled $23,154,000, an increase of 666%. The peak, however, was reached September 30, 1918, when unfilled orders stood at $32,382,336. The decline since then, up to December 31, 1918, had been about $9,500,000, or almost 30%. Undoubtedly this decrease is a reflection of the cessation of hostilities, and the natural slowing up of business. The graph shows the trend of unfilled orders since the beginning of 1915, and illustrates how the expansion of business related to contracts connected with the prosecution of the war culminated in the fall of 1918. As an incidental side light it may be interesting to note that the unfilled tonnage figures of the U. S. Steel Corporation reached their top in the spring of 1917.

Unlike the experience of many other industrial corporations, Allis-Chalmers found the net results in 1918 better than those for the previous year. Many companies found that the heavier tax burdens last year more than offset the great volume of business, and consequently the net balances applicable to share issues suffered in comparison with 1917. Allis-Chalmers, however, earned $28 a share on the preferred stock in 1918, compared with $24.74 in 1917, and this despite a deduction from earnings of $5,138,882 for Federal taxes, special amortization of buildings, machinery and facilities installed by reason of the war. In 1917 the allowance for taxes was only $1,298,300, and the difference between that total and the deductions in 1918 was in itself equal to over $23 a share on the preferred stock.

Preferred Stock Dividends

Originally, the preferred stock, which is now a 7% cumulative issue, was cumulative at the rate of 5%. This provision was for two years from January 1, 1913. From January 1, 1915, to January 1, 1917, the stock was cumulative at the rate of 6%, and thereafter was entitled to the full cumulative provision of 7%. When business began to improve in 1915 it was natural that the first thought of those interested in the company should be in the direction of dividends upon the senior stock. Directors assuaged expectation to some extent by ordering payments of 3%. The next year business was still better and 9% was paid, followed by 10% in 1917, and last year 10% again was paid. In all dividends totaling 32% were paid on the preferred up to the end of 1918, leaving 4% in deferred dividends due. The company adopted the wise measure of going slowly in the matter of clearing off back dividends, and was always cognizant of the fact that the increasing volume of business meant a heavier drain on cash resources, and demanded a conservative policy with regard to paying out cash to stockholders. At present, in addition to the regular quarterly payments of 1¾% dividends, three-fourths of 1% is paid against the accumulated dividends, and at this rate the deferments



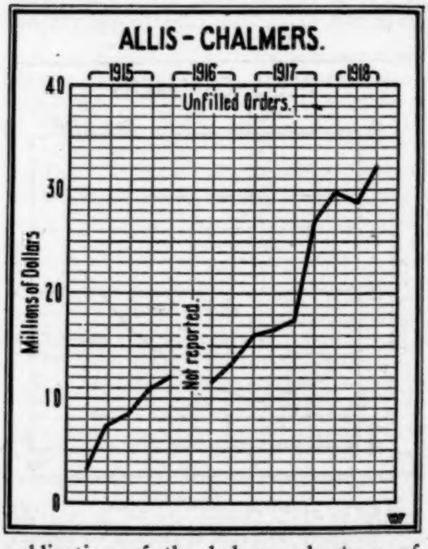
will be entirely cleared off early in 1920, and there is no present reason to believe that this policy will be changed.

Position of the Common Stock

Naturally, with the necessity of clearing off back dividends on the senior stock issue, the question of dividends on the common stock has been more or less of a long-distance hope. It was believed in 1918 that with a continuance of the business of that year there would soon be grounds for expecting that dividends on the common stock would be in sight, and be something more than a wish. Including the returns for 1918, it may be figured that total earnings on the common stock since 1913 have been about $32 a share after allowing for the $32 in dividends paid upon the preferred, and if it were

figured that all of the dividends to which the preferred is entitled had been paid, the total earnings on the common would be about $25.50.

The Allis-Chalmers property account remains about the same as at the inception of the corporation, although the totals at the end of 1918 are not yet available. On the balance sheet the patents and good will account has been carried steadily at $19,615,800, which is equal to about $74 a share on the common stock, but the profit and loss surplus increased from $755,125 at the end of 1913 to about $8,500,000, although pending the



publication of the balance sheet as of December 31, 1918, this total may not be regarded as final.

Working capital has increased to keep pace with the expanding business, and at the end of 1917 stood at $16,488,000, compared with $12,217,000 at the end of 1913. Of course the inventory account has grown much larger, and in this connection it may be cited that at the end of 1913 inventories represented about 40% of the total working capital, whereas at the end of 1917 the proportion was approximately 75%. The standing at the end of 1918 is of more importance than the ratio at the close of the previous year, as indicating whether the inevitable marking down that the readjustment process will bring will have a serious effect upon the position of the company. On this point it is reliably stated that the company is adequately protected against loss on its contracts with the Government, and that the cash position should grow stronger as contracts under way are completed and inventories liquidated. However, the matter is most essential, and results will be watched with more than casual interest by those interested in the affairs of the company.

Business Outlook

During the height of the war boom in the stock market a story went the rounds in Wall Street concerning an excited customer who commanded his broker to buy Allis-Chalmers common in the belief that it was a motor stock, and as such was sure to participate in the speculative rush that was hitting the motor shares at that time. The business of Allis-Chalmers is varied enough, but it does not include the manufacture of automobiles. The principal products of the company are agricultural machinery, air brakes, air compressors, cement machinery, coal mining machinery, condensers, crushing machinery, engines, flour mill machinery, mining machinery, power transmission, pumping and sawmill machinery, steam and water turbines and many kinds of electrical apparatus. With a return to a peace business basis it would appear that the company should do well in the farm machinery line, and should also benefit by any boom in the building and construction industries. Another possibility is the development of the output of electrical apparatus. Allis-Chalmers controls the Bullock Electric Manufacturing Co., heretofore controlled through stock ownership, but now merged completely with the Allis-Chalmers organization, and is prepared to enter upon quantity production.

As has been mentioned, unfilled orders at the end of 1918 totaled $23,154,000. A large proportion of those bookings represented Government contracts, and it is possible that some cancellations will result, but at present officers of the company do not expect any such development on a substantial scale. They point out that the business does not represent orders for shells or ordnance, but for

engines, turbines, etc., products which the Government can still use.

Current sales billed are running at the rate of about $3,000,000 a month, which is in the close neighborhood of the averages during 1918, but new business is at the rate of only $1,000,000 a month, and is not expected to show material change until the whole machinery trade passes through the transition period and enters actively upon peace business. This year Allis-Chalmers expects to center much of its attention upon the development of the farm tractor, and will push to the utmost this branch of its line. It is explained that the company will be in a cash position to pursue that program without straining resources or going to the banks for funds.

Conclusion

Allis-Chalmers has never, with its present corporate organization, gone through a period of normal business activity. Brought into being in 1913, when times were poor, and growing poorer through 1914, its only test was during the war era, when results were entirely satisfactory, but the permanent position of the company's stocks may not be established until earning power has been more fully tested in a period that does not obtain its business from the abnormal conditions prevalent for the past three years.

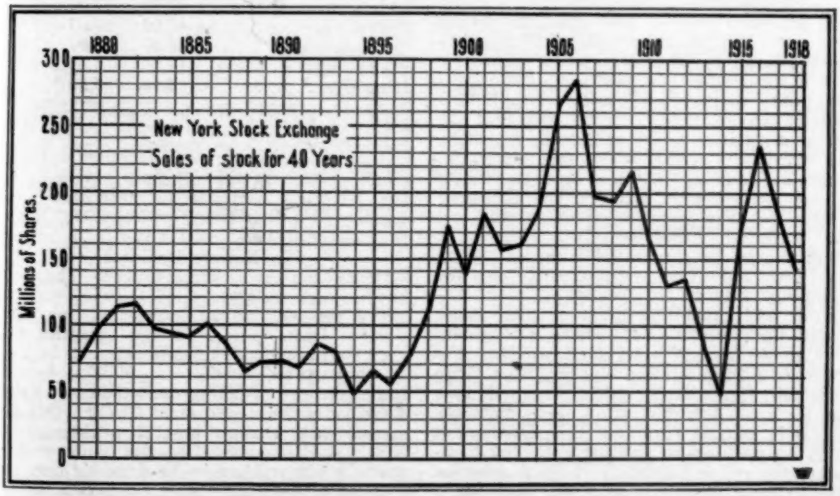
The preferred stock looks to be in a promising position, and while it may not be ranked as a conservative investment issue, it has not yet fully discounted its entry into the class of the regular 7% dividend payers, and with reasonable results in the fortunes of business, should ultimately sell higher.

TABLE II—PRICE RANGE FOR STOCKS

	Preferred		Common	
	High	Low	High	Low
1913..........	43½	40	9	7⅝
1914..........	49	32½	14¼	6
1915..........	85⅞	33	49½	7¾
1916..........	92	70½	38	19
1917..........	86⅞	65	32⅝	15
1918..........	86½	72¼	37	17¾
*1919..........	90¼	81⅞	36¼	30

* To March 15.

As to the common stock, if, as expected, readjustment to a peace basis leaves the business of the country in a position to go forward, there should be good possibilities in the junior shares. If purchased they should be held for a long pull with a view to participating in the eventual growth of the company's business.



Trade Tendencies

As Seen By Our Trade Observer

This department summarizes and comments upon the tendencies in the more important trades as expressed in the authoritative trade publications and by recognized leaders in the various industries. As the general tendency in a given trade is but one of many factors affecting the price of the securities representing that industry, the reader should not regard these Trade Tendencies alone as the basis for investment commitments, but merely as one of many factors to be considered before arriving at a conclusion. He should also bear in mind that security prices as a general rule discount by from three to six months the important changes in fundamental industries.

Steel

Prices Fixed

Not a little surprise was caused by the announcement of the new schedule of prices. The trade predicted that much lower prices would be set at the conference and the actual schedule was received with satisfaction. With a reduction of only from 10 to 14% as an average throughout the steel list, many of the smaller companies will be able to continue business providing they get the business.

A much further cut in prices could have been made of course, if wages were reduced, but officials claim that the maximum cut has been made without this reduction. The agreement to maintain wages as far as possible is fairly general throughout the trade and a general wage reduction is not expected. Steel men point out that they could not comply with the wishes of the Industrial Board for a reduction all along the line of from $10 to $11 a ton and the present price agreement is a compromise.

What Next?

The arguments in favor of price stabilization are well known, the chief one being that the Government will immediately become a large buyer of steel and this buying will in turn inspire confidence in the general public so that it will not be long before activity is reawakened. It is hoped that the actual result will be as predicted, but there are many things that make this uncertain. There are four big steel buying departments of the Government, namely, the Shipping Board, the War and Navy Departments and the Railroad Administration. Three of them should be eliminated immediately, as the War and Navy Departments and the Shipping Board are reducing their activities and cancelling most of their large orders now outstanding. There is considerable doubt among steel men whether the Railroad Administration will become a large purchaser immediately either. It is true that the Railroad Administration needs material, but it is equally true that this department is in no position to pay for extended commitments and is therefore likely to practice the strictest economy wherever possible.

Undoubtedly the atmosphere has cleared to a certain extent, but there is plenty of confusion yet. There are many in the trade that cling to the argument that the price schedule may bring a temporary rush of orders, but prolonged activity cannot be expected. They point to the action of the copper market, and show that although prices were successively cut from one level to another, large buying did not make its appearance. They point out further that there may be a large potential buying power, but consumers have nothing to assure them that the first cut will be the last and for this reason the uncertainty will be just as great as before. The actual outcome remains to be seen. The trade is temporarily encouraged, and it is hoped that business will soon pick up, but there are many things that must be cleared up before activity can be expected, and it would not be surprising to find that the trade will eventually have to allow the market to take its normal course before a revival sets in.

IRON AND STEEL PRICES

	New Price	Old Price	Reduction
Pig Iron (per ton)....	$25.75	$30.00	$4.25
Billets, 4-in. (per ton)	38.50	43.50	5.00
Billets, 2-in. (per ton)	42.00	47.00	5.00
Shapes (per ton)......	49.00	56.00	7.00
Bars (per ton)........	45.00	52.00	7.00
Plates (both classes)..	52.80	59.80	7.00
Iron Ore	5.50	5.50	....

The legal phase of the question is under consideration at this writing. It is up to the Attorney General to pass upon the legality of a price-fixing arrangement under the Sherman Anti-Trust Law.

No Export Business

Orders for export are not large. The trade has very generally accepted the view that no heavy demand can be anticipated for some time at least. Those foreign countries that need steel are unable to close contracts because of shortage of funds. In addition foreign buyers believe in taking their time, no matter how badly they need steel. When this situation will change is still problematical, but it is becoming more and more evident that the big problem is the domestic one, and this must be solved before much reliance can be placed on export activity.

Railroads

Plan Evolved—Railroad Needs

After the initial shock caused by the failure of Congress to appropriate $750,000,000 for the revolving fund, a temporary solution is seen for the railroad troubles. The Director General, together with railway executives, leading banking interests and financial officers of the Government have formulated a plan to care for the present emergency and to tide the railroads over until necessary legislation can be enacted. It has practically been decided that the Railroad Administration will issue warrants for the amounts due railroad corporations and these warrants will be in such form as to serve as collateral if the roads find it necessary to borrow money from private banks.

In cases where a railroad's credit is strained the Administration has made arrangements to obtain funds through the War Finance Corporation. Of course it is not possible to rely upon the War Finance Corporation alone, as this body has lending assets of only $360,000,000, as compared with the funds totalling $701,697,692 needed by the roads.

Many peculiar situations have arisen in this respect. While bankers are ready and willing to furnish the necessary funds, they insist upon the fullest protection and will get it before advances are made. Many of the roads have not yet signed the contract which guarantees them a return equal to the average rate of the return on their property for the preceding three years. While most of them will be signed, bankers claim that there may be some hitch and therefore would rather lend to roads which have already signed their contracts or are known to be in a strong position. Inasmuch as the roads which need the assistance most are the weak ones, some difficulty may be experienced here.

What Is Needed

The railroads must have a total of $701,697,692 for their back, current and immediate future needs. About $200,000,000 is required to meet the deficit created during 1918 through failure of the railroads as a whole to earn the net income guaranteed by the Government. During this year the carriers must meet maturing bonds and notes aggregating another $200,000,000 and equipment purchases must be paid off to the tune of about $650,000,000. Only $280,000,000 has been advanced by the Government on account of the $937,000,000 improvements and betterments authorized last May. The itemized financial needs of the Railroad Administration, as officially given, can be seen in the table accompanying this article.

RAILROAD FINANCIAL NEEDS

For interest and other corporate requirements of the railroad corporations	$166,066,762
To meet amounts due equipment companies by the Railroad Administration	183,681,965
To pay for indispensable additions and betterments, including equipment ordered by the railroad companies	110,000,000
To meet maturities of the railroad corporations	100,948,965
To meet excess of cash requirements to pay current vouchers over the probable receipts up to March 31, 1919	101,000,000
To bring cash balances in hands of Federal treasurers up to $200,000,000, which is the normal requirements for one month	40,000,000
Total	$701,697,692

The Earnings Situation

For the first time in six months earnings as a whole have taken a turn for the better. The January returns just published show increases in net, but unfortunately the ratio of expenses to earnings is still increasing. If we fail to analyze the cause and effect of the January returns we might come to the hasty conclusion that a real turn for the better has arrived. This is not so, however. It must be borne in mind the month of January this year held no such obstacles in the way of severe weather as the corresponding month in 1918. Although gross revenues were $111,398,872 over the returns in January, 1918, and a gain in net was recorded, operating expenses were $88,684,084 larger than in January, 1918.

The ratio of expenses to gross earnings continually advances. In January, 1919, this item was 90.75% against 89.79% in December, 1918, 77.92% in October, 71.41% in August, and 68.87% in July. The increase of operating costs month by month has been steady ever since the new wage rates were put into effect last summer. Some of the individual roads, of course, are showing a ratio of expenses to gross in excess of 100%.

Wage increases are not the only factors in the increased operating expenses of the roads, but they are the primary ones and, as has been pointed out repeatedly in this column, unless steps are taken to correct this situation the roads will continually be in "hot water." Gross earnings have expanded about as far as they are likely to expand for the simple reason that the big Government business is now over with and with prevailing high passenger and freight rates ordinary business will curtail in shipping as much as possible.

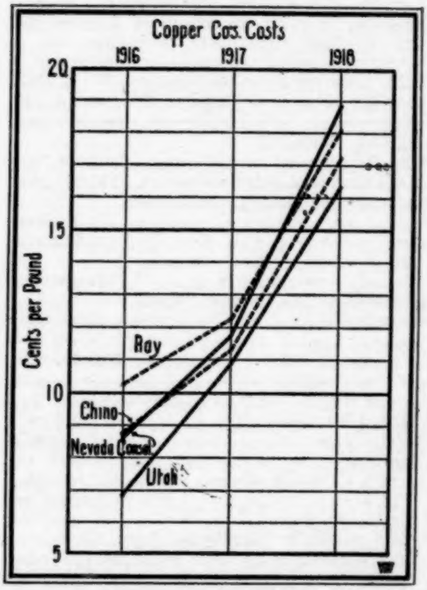
As a matter of fact the movement of freight tonnage and passenger traffic is being automatically reduced because of general business conditions. It is essential therefore that there should be no further increases in railroad

wage rates, if in fact they cannot be reduced. Railroad wages are now high, higher in proportion than in other industries, and steps should be taken to acquaint railroad employees with the fact that it is an economic impossibility to give them all they ask every time they ask it.

Copper

Market Again in Grip of Dullness

Each successive lower price level develops a rush of buying, but unfortunately this buying is not maintained very long and the market soon reverts to its former monotonous color. So many "false starts" have been recorded in



the last few weeks that when the real buying movement actually gets under way the trade will probably not know it. It is evident that the buying that has developed was only in the case of urgent need and does not represent the real buying power (that was expected to develop at 23 cents and refuses to develop at 14 cents).

The market might be called slightly better stabilized if the temporary refusal of large and small producers to sell below 15 cents can be called stabilization. The large companies are holding firmly at the 15-cent level and the small ones are following suit in most instances. However, consumers refuse to be attracted into the market at that price. Buyers claim that if they hold off a short while they will be able to get the metal at lower figures as the producers' dilemma is acute. There is some justification for this point of view, in that the big companies especially are subject to heavy carrying costs and it is only a question of time as to how long they can stand it. Of course it is possible that consumers are exaggerating this situation in their own minds and their situation is likely to be similar to the stock market investor who tries to get the last eighth. If consumers find after waiting a reasonable length of time that there is a level below which producers absolutely refuse to do business, they may suddenly come into the market and be obliged to pay higher prices than if they had not waited.

Nevertheless everything seems to be in the consumer's favor. Further curtailment of production is reported throughout the country, with many of the smaller companies that were able to continue at about 30% of capacity cutting down altogether, and some of the larger ones that were running at about 50% have cut their production in half.

There has been no definite indication as to what will be done in regard to the Government supplies. Meetings between representative copper men and Government officials are taking place and a definite policy is expected in the near future. As we pointed out in the last issue, it is probable that some plan will be devised whereby future sales of copper will include part of the Government holdings. The disposal of Government stocks in this way would relieve the market of a large tonnage hanging over it, and further drastic price cutting may be avoided. If the large selling agencies undertake to sell the Government surplus, they will no doubt acquire it on a certain scale corresponding with the public market. That is, if copper were selling in the open market at 14 cents the large agencies would acquire the Government metal at 12 cents and dispose part of this with their own production. If the market moves upward, then the price at which the copper would be acquired from the Government would also move upward, and vice versa.

Although most business done has been in small lots, the trade reveals inquiries for substantial amounts at about 14 cents or below. It is reported, for example, that one large wire concern bid 14 cents a pound for 10,000,000 pounds of the metal. Also that inquiries are present from French sources, but the business is not actually closed, as the price cannot be agreed upon.

Export Hopes Temporarily Blasted

What has become of all of the business the copper trade was going to get from Europe? That this business only exists in the imagination of a few over-enthusiastic individuals is now becoming apparent. We pointed out in this column soon after the armistice was signed that the copper trade should not become too optimistic in this direction. European markets are not bare of copper, as many believe, and as a matter of fact it is estimated that there are about 500,000,000 pounds in the

hands of the various governments awaiting consumption.

Of course Germany needs copper badly, but the question of financing is a problem. No doubt some plan will be arranged whereby we will sell copper to Germany, but there are many other things of more importance to be settled with that country before such business relations are taken up.

The Copper Export Association committee

EXPORTS AND IMPORTS OF COPPER

	Total Exports (Canada Included	Total Imports
1914	360,229 long tons	134,000 long tons
1915	276,344 " "	137,500 " "
1916	327,310 " "	199,000 " "
1917	493,256 " "	242,000 " "
1918	328,844 " "	251,000 " "

is expected to return about the first of April. No orders of importance were booked and it is now claimed that this association went abroad for the specific purpose of studying conditions, establishing agencies and booking orders only when they were offered. This is somewhat contrary to the impression gained when the committee was sent off with the best wishes and the high hopes of the trade. It only means, of course, that copper is neither wanted nor needed at the present time or at the present prices.

S. R. Guggenheim, who has already returned, made the significant statement that American business men must learn to "build up a domestic market for their products and also try to establish themselves firmly in neutral countries. This should be their first thought instead of depending upon Europe as an outlet for their goods. Europe is sick, very sick, and while reconstruction will mean big demands for products of all sorts, this will not develop for some time to come."

Oil

No Surplus in 1919 Expected

Strength is apparent in the oil industry in that there is little likelihood that 1919 production will be greater than consumption. In 1918 the United States consumed more than 55,000,000 barrels of crude oil over the production in that year and, in spite of extensive plans for intensive development, oil men believe that the industry will be doing well if it keeps up with consumption during the current year.

As a matter of fact, the surplus stock situation is not at all encouraging from the consumer's point of view as at the beginning of this year it was the smallest at any date since 1909. The mid-continent field, for example, was down below 80,000,000 barrels, or the lowest in many years.

The Ranger field is the only present hope for an increase in production this year over 1918. There is plenty of activity in this new found oil bonanza, but the difficulty in marketing and in obtaining the necessary equipment for further development is slowing up deliveries. Some oil men estimate that by the middle of the coming summer the North Texas field will be getting into its stride, but other equally good authorities think that not much relief can be expected from this source this year.

The Overproduction Talk

"Outsiders" continually bring up the scare of overproduction but their comments are not given much weight, as oil men realize that such a condition is unlikely in the next year or two at least. As a matter of fact well-posted oil observers claim that had not new oil-producing area in Texas been discovered American production would now be declining. With production behind consumption in 1918, despite the strenuous efforts by the United States Government to increase the output during that period, there should be little fear of an oversupply this year. Besides, peace consumption is ever expanding and the demand for all grades of oil, with the exception of fuel oil, is as great as during the war. The 1918 year ended with 123,000,000 barrels of crude oil in stock, against 150,000,000 at the beginning of the year. The former amount equals about 4 or 5 months' production, and it can be seen that if production should suddenly cease the last barrel of oil in stock would be consumed by the middle of this summer.

In the face of this situation it is hard to see where the overproduction argument holds Assuming that consumption increases as expected, due to the many factors that go into creating a larger demand, it is unlikely that the Ranger production will more than offset this. If this theory is correct, it is only a matter of time before increased demand breaks through the deadlock and we will find that there is not enough oil to go around.

Another consideration is the gasoline supply. Estimates of gasoline consumed for the automobiles now in use in this country are placed at around 62,000,000 barrels annually, while United States refineries turn out about 85,000,000 or 90,000,000 barrels. As based upon the present increase in the number of automobiles, the next year or two should see this consumption increased to 70,000,000 barrels annually. Export requirements easily consume 30,000,000 barrels annually and the increase in consumption of gasoline in this country would require additional crude oil production.

Overproduction is not worrying the best informed. Oil's future is increasingly bright and the oil industry is going ahead with its plans for expansion with utmost confidence.

Public Utilities

Street Railways Position Improving

That the street railways situation has taken a definite turn for the better is evidenced by

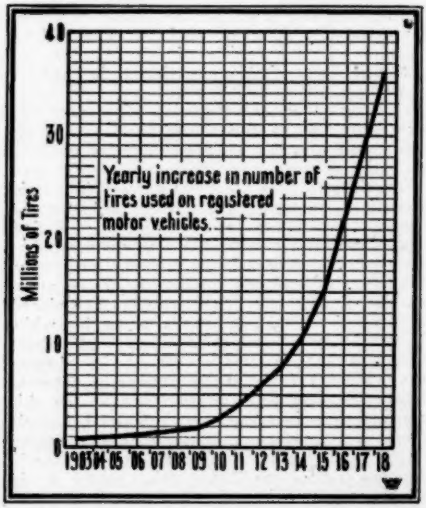
the improvement that is shown since the beginning of winter. The street railways suffered the most in the last two years and were the last of the public utilities to show signs of recuperation. Not only have operating conditions become better but gains in traffic movements are shown together with slight reductions in the cost of materials.

Undoubtedly the mildness of the winter had a great deal to do with the tractions' improved position. On top of all the other troubles the traction companies had last year, the severe winter came very near proving the last straw. At the time when operating costs were at their highest and labor was getting an extraordinary wage, fuel selling at unprecedented levels and copper, iron and steel were abnormally high, gross revenues were depleted by the inability of people to travel.

This year things have changed abruptly. Nearly all street railway companies are reporting large increases in the number of passengers carried and many of them have obtained increases in fares in the face of shading off in material costs.

Labor and Materials Situation

Not much change is noted in the labor situation and wages are still high. War Labor



Board awards are still in force and trolley workers are paid on the average of 48 cents an hour, as against approximately 36 cents in 1917. Street railway operators are optimistic on the labor problem, however, as they maintain that wages for all classes are as high as they will go and it's only a matter of time before they begin to come down.

The materials end of the operating account is gradually getting better. Copper is obtainable at between 14 cents and 15 cents, against a minimum of 26 cents in 1918, and steel rails, parts and electric appliances have come down considerably in price. The biggest saving to be effected so far this year is in the coal bill. Coal mines are stocked with large quantities of the fuel and are having difficulty in obtaining a ready market. Spot coal has declined considerably in price and many traction companies have been able to effect a great saving in this direction. It is true that many of the companies are tied up with contracts running to the first of April, the end of the coal year, but there is very little doubt that when these contracts are renewed much lower prices will be paid.

It is, therefore, evident that the long awaited turn for the better in the traction situation has at last arrived. The mild winter has set the ball rolling and street railway men believe that it will be many years, if ever, before their companies get into so stringent a position as was faced in the disastrous 1918 year. Traction companies all over the country have seen their worst days, and the gradual improvement gaining momentum all the time should place these companies near former highly regarded positions.

Rubber

Good Progress Being Made

More activity is noticed in the rubber industry and although its full stride has not yet been reached, the readjustment period and its accompanying semi-inactivity is being rapidly left behind.

Some branches of the industry are working at full speed ahead. Manufacturers of the smaller articles, such as druggists' rubber sundries, have not been obliged to slow up to an appreciable extent, as they have large orders for these articles which could not be completed while the manufacture of goods for the Government was going on. A switch from filling Government orders to these held-over domestic ones is being accomplished without any trouble and most of the plants are employed at capacity.

On the surface it would seem that the factories are not getting very much business, but this is due to the fact that the plants are far behind on deliveries, and jobbers are buying on a piecemeal basis. Of course there is quite a contingent of buyers who refuse to make commitments for more than their immediate needs, awaiting a drop in prices. Manufacturers declare, however, that no cut can be expected as manufacturing costs are still as high as ever, and instead of laying off workers the factories claim that they are having difficulty in obtaining skilled workers even at high wages.

Many styles of miscellaneous rubber goods were prohibited during the war, manufacturers being obliged to turn out the simplest of each article, and only one kind at that. All of these restrictions were automatically removed with the ending of the war, and in order to meet the diversified demand the factories are turning out as rapidly as possible

the many things that were prohibited. All of these conditions are enabling the rubber manufacturers to tide over the period of dullness and will place them in a position to take advantage of the revival in buying which is sure to come in the near future.

Imports of Rubber Increase

New records are being made monthly on crude rubber importation. Manufacturers are very much pleased with the situation, as they are having less difficulty in obtaining the raw material and they are going ahead with the theory that plenty of raw rubber will be available. Thus they are able to turn out their products without hindrance.

Many of the smaller manufacturers were in a precarious position as to stock on hand. As a matter of fact it looked as though some of the plants would have to close down because of the inability to obtain the crude rubber. All sorts of methods were devised to obtain raw rubber during the war. Manufacturers sold to each other as a matter of courtesy and generally at a substantial profit for their pains.

Crude rubber is only beginning to show up in quantity now, as it takes about 60 days for this material to reach here from Brazil. Most of the orders were cabled around the end of December and the first of January and the material is just beginning to arrive.

The rubber industry learned a great lesson during the war which should save it millions of dollars in the future. Standardization of products was required, and manufacturers soon learned that this was a good procedure to follow for economy if nothing else. It is generally believed that standardization of tires, for example, has come to stay and, needless to say, it is a good thing.

Lumber

Government Surplus Dwindling

Since the armistice was signed the lumber trade has been in a very uncertain state, as a huge government surplus was feared. Lumber consumers have very generally kept out of the market awaiting some definite announcement as to the exact amount of the Government surplus that would have to be marketed. Lumber men were at a loss to establish a market, with the result that activities dwindled to the minimum.

At first it was thought that the Government would have no need for the surplus lumber on its hands and proceeded to make a comprehensive inventory of these supplies stored at various points throughout the country. In December a conference was called of representatives of the National Lumber Wholesalers and Government officials and plans were made to dispose of 600,000,000 feet of lumber, the estimate of the Government over supply.

It was decided, however, to attempt a more careful inventory and a large force was sent out over all the country to make a new estimate. The first inventory after the preliminary estimate placed the Government surplus at 200,000,000 feet below the conference estimate. It was then found that much of this lumber was carried in contracts and work has been started on a great deal more, so that the next estimate placed the total Government reserve at 200,000,000 feet.

As remarkable as it may seem, the Government decided that it could use this lumber for one purpose or another, and that only 40,000,000 feet will be offered to private buyers. The decision to offer this amount is definite and the lumber trade greets it with great satisfaction. Forty million feet of lumber is only about one-fifth of 1% of the national production, and unloading this stock on the market will not even make a dent. With the announcement, buyers are making plans to offer contracts for future delivery and lumber men are now able to gauge their market correctly. A better feeling is apparent and it should not be long, lumber men think, before large contracts are let for building purposes.

Coal

Extremely Dull and Nervous

Supplies of coal continue to pile up at the mines, at tidewater and in the retailers' yards. Demand has faded to insignificance, with the result that a crisis is rapidly approaching. There has never, at least in recent years, been so much coal available with so little demand. Coal cars on railroad sidings are loaded with the "black diamond" the country over.

Producers are stubborn in regard to prices. Every effort is being made to get out from under with at least no loss, but the manifold conditions working against coal sellers are not easily overcome. Coupled with the mildest winter in many years, the coal mines are simultaneously faced with an abrupt cessation of industrial activity which, of course, has its direct effect upon consumption of coal. Hundreds of high cost coal mines ceased operations almost immediately after the armistice was signed, and since that time others have been closing down regularly. If it were not for the closing down of these soft coal mines and the decrease in the output of bituminous, the strenuous effort that is now being made to hold prices at around the present level would have been of no avail. The only coal that is moving now is on contracts made from three to six months ago, and new buying is practically at a standstill.

It is admitted that reserve stocks in the hands of consumers are growing smaller, consumers' needs are likewise contracting and very little encouragement is afforded from this source. Buyers very generally realize the producers' dilemma and are refusing and will refuse to purchase much of

a supply ahead. That is, where stocks are running low these consumers will endeavor to purchase only what they require to cover current needs. They realize that their day has come and lower prices must prevail.

While the situation is not quite so bad in the hard coal end of the industry, much of the same factors are working here. High-speed production running into a sharp curtailment in demand has left the market glutted with all sizes of anthracite. Many of the anthracite colleries have shut down and others are working on a 50% or less basis. The efforts of retailers to convince consumers that now is the time to put in a supply of coal even for next winter are proving of no avail, and buyers are not a bit afraid of the cost of higher prices next year. Thus the mines and coal distributors are tying up their funds in the fuel on which no interest can be obtained, and the prospects of getting out without a loss are becoming daily more uncertain.

The coal situation is in an unhealthy state, and the sooner producers and distributors make up their minds that a free rein must be given to the law of supply and demand, the better it will be for all concerned. With prices holding well to the former Government maximum and with all factors working against the probability that these will be maintained at this level, price cutting is looked for in the near future.

Hides and Leather

Inactivity and Irregularity in Both Markets

Dullness prevails in the leather market, with the tendency to softer prices. The sudden demand that developed the first of the month of the year for leather generally, and upper leather in particular, has proved to be of a temporary nature and inquiry seems to have died out completely. Buyers are not displaying much interest in the market, although sellers are not making any particular inducement through a cut in prices. Buyers generally are inclined to believe that the tension will be broken in the course of time, and they are adverse to getting "hung up" with high cost materials.

Export activity is moderate and quite a little business is being obtained from Europe. However, this end is not coming up to expectation, and it appears that foreign sources are in the market for only enough to supply current needs.

Demand for hides has also lessened considerably in the last few weeks and as a consequence prices have eased somewhat. Sellers are losing some of their initial "cocksureness" and many have displayed a marked anxiety to sell. The market generally has an irregular aspect with prices strong on some varieties and weak on others. Light hides enjoy most of the small demand, whereas heavy stock is neglected.

Meanwhile the manufacturing end of the industry is in an uncertain state. The largest shoe manufacturing concerns are busy clearing up the last of Government contracts and making preparations to switch back into civilian production with the least possible disturbance. The same condition as regards Government contracts prevails in the shoe industry as in the wool trade or the steel. Final payments are slow in coming, thus manufacturers are handicapped by the tying up of their capital. Further uncertainty in the industry is created by the fact that the Government has on hand over 2,000,000 pairs of shoes with daily distribution of them steadily decreasing, owing to demobilization. The trade believes that sooner or later the Government will put these shoes on the market at attractive prices and will try to lighten its holdings by inducing civilians to purchase.

Shoe prices are abnormally high according to the trade itself, and it is believed that there will be marked recessions in the prices for leather and the finished product very soon.

HOW SCHWAB GETS THINGS DONE

FROM a man who has had far more than ordinary success in getting things done, the following statement of Mr. Schwab has exceptional interest:

"It has been a lifelong theory of mine, one that I have put into practice for thirty-five or forty years of industrial pursuits rather successfully, and one which I think ought to be the keynote of everything we strive to do during this period. I believe that men rise to their greatest accomplishments by proper encouragement, not by criticism.

"I have yet to see the man, however great and exalted his situation, who is not susceptible to the approval of his fellow men. I have yet failed to see the man who is worth calling a man who does not put forth his best efforts under the approval of his fellow men. And the severest criticism that can come to any man is not to find fault with him, but not to be noticed at all. When a man is not noticed he knows that he has not gained the approval of his fellows, but when he is approved he gives his best effort.

"If I might be allowed the privilege of a word of suggestion, it is that that tone, that air of encouragement, of enthusiasm, of pushing forward, not critical fault finding with things that have gone by, but enthusiastic encouragement for better results, even though the past has not been up to our expectations, will bring us manifold additions to the enthusiasm and ability of not only our work people, but those who direct our various departments."

PUBLIC UTILITIES

American Cities' Subsidiaries

Analysis of Underlying Values Behind Holding Company —Are Its Bonds Worth Their Present Prices? —Preferred Stock Outlook

By GEORGE S. HAMMOND

THE extraordinarily difficult conditions under which public utilities have had to operate of late have placed them in the position of being the least favored of any broad class of industry. These difficulties have been particularly hard upon the less well fortified members of the holding company group. The typical public utility holding company has mortgaged its subsidiaries liberally, its own interest therein consisting of the equity represented by the stocks. In order that the parent company may make a good showing and favor its stockholders, it is necessary to distribute the surplus profits of the subsidiaries in the shape of generous dividends. As a result of a prodigal tendency in these disbursements, the subsidiaries fail to accumulate much fat, their working capital may remain at little or nothing, and there is small power of resistance with which to meet unexpected adversity.

Holding Company Often a Frail Craft

In order to control a maximum of property with a minimum of capital, the holding company may pledge its subsidiaries' stocks as collateral for a bond issue, leaving for its own stock only the equity in the subsidiary stocks, which are in turn subject to bonds. In normal times the stability of the public utility business enabled a number of these concerns to sail along on a fairly even keel, though they were purely fair weather craft. The winds of adversity have arisen, however, and it becomes evident that not all the fleet will ride out the storm. It should not be inferred that the foregoing weaknesses are inherent in all public utility holding companies for, as in everything else, there are degrees of conservatism and of recklessness, and some concerns, such as the American Light & Traction Co., have made a conspicuous success of this line of activity.

The American Cities Co., the subject of this study, has had more than its fair share of trouble. Not only has it had inherent weaknesses, but its large proportion of traction business, more seriously affected than other classes of utilities, has been a disadvantage. It has had to contend, moreover, with the stubborn refusal of the authorities in the Southern cities and states to recognize the vital need of rate relief.

The company began business in 1911 as a holding company, controlling in the aggregate 85.79% of the preferred and 94.54% of the common stock of the southern utilities, shown in Table I.

Of these the first three, representing about 86% of the capitalization and about 82% of the gross revenues, have gone to the wall in the last few months.

New Orleans Railway & Light

The most important of all, the New Orleans Railway & Light Co., earned in 1912, about the time that the American Cities obtained control, sufficient to pay its fixed charges 1.59 times. The balance over charges was equivalent to 9.95% on the preferred stock (5% being paid) and to 2.48% on its common stock (1½% being paid). Since that time operating revenues have increased in a satisfactory manner, but charges gained on them and in 1916, which should have been an excellent

year, charges were earned only 1.33 times. In 1918, with much higher costs, the balance after charges of $2,158,993 was but $151,291, and inability to refund maturing notes brought about a receivership. This situation was created in part by an improvident policy in the payment of dividends beyond the company's ability to do so without sacrificing conservatism. The profit and loss surplus of $2,739,519 at the end of 1912 had been reduced five years later to $1,077,793.

It is proposed to reorganize the company upon the basis of a much smaller capitalization. In this connection, the city has placed a valuation of $38,323,935 upon the property as compared with an estimate of $44,816,000 made by General Goethals, and a company estimate of $48,001,285. The bonded debt amounts to $39,144,200, which makes it doubtful if the American Cities Co. will be able to save much for itself out of the wreck. In trying to determine the future of American Cities it is perhaps best to write off this subsidiary as a total loss, though there may be salvage of a comparatively small sum.

TABLE I—UTILITIES CONTROLLED BY THE AMERICAN CITIES COMPANY

Company	Preferred Stock Outstanding	Preferred Stock Owned by A. C. Co.	Common Stock Outstanding	Common Stock Owned by A. C. Co.
New Orleans Railway & Light	**$10,000,000**	**87.6%**	**$20,000,000**	**96.3%**
Birmingham Railway, Light & Power	**3,500,000**	**79.1%**	**3,900,000**	**89.1%**
Memphis Street Railway	**2,500,000**	**88.3%**	**2,500,000**	**86.1%**
Knoxville Railway & Light	....	......	**2,000,000**	**100 %**
Little Rock Railway & Electric	**750,000**	**80.1%**	**1,911,700**	**78.5%**
Houston Lighting & Power, 1905	....	......	**2,000,000**	**100 %**
	$16,750,000	**85.8%**	**$32,311,700**	**94.5%**

Birmingham Railway, Light & Power

This subsidiary has exhibited much the same tendency as the New Orleans Railway & Light Co., the rate of growth of earnings being no match for the rising flood of expenses and charges. In 1916 and 1917 net earnings averaged about $1,100,000, charges about $820,000. With the greater costs of 1918 and a stationary five-cent fare, the inevitable receivership ensued. Matters have not yet progressed to a point where the outcome can be foretold, but there would appear to be some hope that a small equity can be preserved for the stock. It will require nursing, however, and can scarcely become a source of income for a few years.

Memphis Street Railway Co.

Being purely a traction concern, and receiving no fare increase, the Memphis Street Railway was placed in an intolerable position by the grant of the War Labor Board of higher wages to platform men and in January, 1919, receivers were appointed. A peculiarity of the situation of this company is that in both 1916 and 1917 the surplus overcharges were greater than ever before. Charges have not been increased excessively, and while the margin of safety over interest charges has frequently been light, and the bonded debt is relatively large, it appears that the company has failed rather through circumstances than through any recent financial errors. As with the Birmingham property, future prospects can only be estimated in the light of the rate policy adopted by the authorities, which has not been encouraging so far, and with reference to the plan of reorganization. Of course the readjustment of prices now in progress may materially improve the general utility situation, and if the interests of the American Cities Co. in these weaker subsidiaries are not wiped out before the readjustment has gone far enough to effect a material change, the company may be able to save for itself at least a portion of its former equities.

Knoxville Railway & Light Co.

Fortunately for the American Cities Co., the other half, though the smaller

half, of the total six subsidiaries are, from a financial standpoint, far better properties. The most important of them is the Knoxville Railway & Light Co., which does all the street railway and electric business in the city. Gross revenues doubled from 1908 to 1918, charges increased only within reason, and the balance for the stock has been well maintained. If the parent company will be satisfied with moderate dividends, the Knoxville Railway & Light should be a steady source of income and, in time, a growing one. About $100,000 a year would seem to be a fair estimate of the yearly sum which American Cities might conservatively draw down. Just at present the heavy expenses of the street railway department might prevent much in the way of disbursements, but, as a long range proposition, the stock should be a good revenue producer, as it was before abnormal and, it is to be hoped, temporary conditions threw everything out of gear.

Little Rock Railway & Electric Light

The Little Rock Railway & Electric Co. renders a similar service in its community. Though apparently somewhat generous with its dividends, there has been no break in the payments on either class of stocks from 1906 to 1917. Common dividends have since been discontinued, as the net earnings for the twelve months ended September 30, 1918, were slashed to $293,784 from $437,531 in the calendar year 1917, leaving but $68,529 surplus. This gives the American Cities an income of $36,000 from the preferred stock only, whereas it received about $48,500 from the common as well in 1916, and as much as $121,000 some years prior thereto. Normally, Little Rock Railway & Electric can conservatively turn over about $100,000 annually to the American Cities Co.

Houston Lighting & Power Co.

The best of all the properties is the Houston Lighting & Power Company, 1905, which does all the lighting and power business of Houston and several adjacent communities, and which is the sole subsidiary to be free from the drain of a traction department. The rapid growth of Houston has been reflected in earnings, and a moderate debt gives the stock most substantial worth. The net incomes are such that American Cities should receive, without impairing the company's strength, about $150,000 to $200,000 annually.

This makes about $350,000 to $400,000 the estimated income which American Cities should be able to count upon, even though its three big subsidiaries were to become a total loss.

TABLE II—EARNINGS OF SUBSIDIARIES, 1917

	Knoxville	Birmingham	Houston	Little Rock	Memphis	New Orleans
Gross revenues	$1,087,072	$3,655,894	$867,940	$1,125,603	$2,126,645	$7,746,250
Expenses and taxes	654,388	2,539,076	514,177	688,072	1,318,890	4,924,716
Net revenues	$ 432,684	$1,116,818	$353,763	$ 437,531	$ 807,755	$2,821,534
Fixed charges	249,644	830,088	93,466	214,054	532,556	1,908,348
Depreciation	34,638	....	....	....	75,636	257,709
Net income	$ 148,402	$ 286,730	$260,317	$ 223,477	$ 199,563	$ 655,477

American Cities Co. Finances

The capitalization of American Cities Co. consists of:

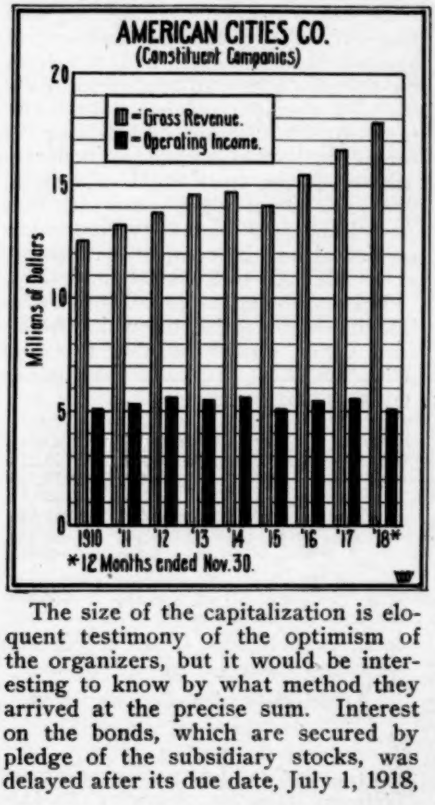
Collateral 6s, due July 1, 1919	$ 7,500,000
Preferred stock, 6% cumulative	20,553,500
Common stock	16,264,700
Total	$44,318,200

The latest statement available for American Cities Co. is that for the twelve months ended September 30, 1918, as follows:

	1918	1917
Proportion of subsidiary earnings	$1,231,601	$1,610,127
Other income	91,843	59,852
Total	$1,323,444	$1,669,979
Deductions	703,750	613,500
Net income	$ 619,694	$1,056,497

These figures do not include the

months during which the orders of the War Labor Board swelled expenses by their increase of wages to the platform men, and they are made up of the proportion of earnings applicable to dividends rather than of the sums paid.



The size of the capitalization is eloquent testimony of the optimism of the organizers, but it would be interesting to know by what method they arrived at the precise sum. Interest on the bonds, which are secured by pledge of the subsidiary stocks, was delayed after its due date, July 1, 1918, and the January, 1919, payment likewise failed to materialize on time. This has brought about a decline in their value to 43-50. Now their interest requirement is $450,000 annually, or in the neighborhood of the sum which the three smaller subsidiaries should return. This revenue is subject, however, to the expenses and taxes of the parent company, amounting in recent years to the relatively enormous figure of about $240,000, compared with $55,000 in 1912. If this charge can be brought down through reorganization, or otherwise, to a reasonable amount, there should remain sufficient to pay at least 4% on a new security, replacing the notes. The preferred stock is about 3 bid, and it has some chance of showing a little value in a reorganization of American Cities Co., should one take place. Both bonds and preferred stock appear to be fairly good speculations. There can be little question that the bonds are fully worth their present market value. The Houston Lighting & Power stock alone should be worth from 25 to 30 on the bonds. There is no public interest in the common stock. It has never paid a dividend and 95% is owned by the United Gas and Electric Corporation. The preferred paid 6% from 1912 to 1914; 4½% in 1915; 3% in 1916; and 1½% in 1917. During that time it sold up to 84¾. Its present lowly estate is a commentary upon the times and also upon the risk which the holder of stock of the weaker public utility holding companies takes.

NEW STEEL FROM OLD

NOT so long ago the possibility of making new or good steel solely from old steel or scrap, without the addition of virgin metal as pig iron, was regarded as a dream, at least so far as any commercial aspect was concerned, says the *Iron Age*. But there is no longer anything unusual about this. The electric furnace has revolutionized our ideas of this as well as of some other metallurgical phases of the steel industry. Even old steel is almost magically reconverted into excellent pig iron.

Something similar to this achievement of the electric furnace is now being accomplished on a large scale in the open-hearth. In two instances, one in Canada and one in the United States, heats as large as twenty-five tons are being made where 95% of scrap steel, mostly shell turnings, is the charge. While about 5% of pig iron is used in one case, in the other none or very little has been employed, but instead petroleum coke has furnished the necessary carbon.

PETROLEUM

Top-Heavy Ohio Cities Gas

An Oil Stock Which Does Not "Boom"—Capitalization Keeping Pace With Earnings—The Dividend Policy—Stock's Position

By A. U. RODNEY

INCREASED earnings are a very good thing, but if the number of partners sharing in the increase multiplies correspondingly or at a greater rate, no advantage is gained and eventually it may prove a decided disadvantage. If more participate as earnings go up no advantage is derived. The eventual results may prove disastrous. Capitalization is very seldom revised downward except in a receivership, and earnings have the disagreeable habit of fluctuating violently, particularly in the oil business.

What is the Ohio Cities Gas position in this respect? Earnings have increased but capital obligations have been added at a liberal rate and stockholders are interested in determining their status now.

10% Public Utilities—90% Oil

In its efforts to acquire sufficient gas to supply its customers, the Ohio Cities Co. found oil. As a public utility it is doubtful whether it would have come into prominence, as before 1915 the company was satisfied to plug along in the public utility field, supplying its customers with natural gas and returning small earnings to its stockholders. In 1914 Ohio Cities produced a few hundred barrels of oil and used it mostly for fuel. Feeling the need for additional natural gas production, the company acquired acreage in the Cabin Creek district of West Virginia, and through a streak of good fortune brought in oil in large quantities instead of gas.

Suddenly prosperous with visions and indications of greater prosperity, the company's officers decided to go in for oil on a large scale. Besides its own holdings, negotiations were opened for the acquisition of other gas, oil and pipe line companies, and now Ohio Cities is the father of an extensive flock.

When the company started as the Columbus Production Co. (title subsequently changed to the Ohio Cities Gas Co. on April 21, 1914) it controlled through ownership of capital stock as a holding corporation the Columbia Gas & Fuel Co., Federal Gas & Fuel Co., Springfield Gas Co., Dayton Gas Co., Columbus Drilling Co., and Mountain States Gas Co. In 1917 the Pure Oil Co. was purchased. Other companies controlled are the Pure Oil Pipe Line Co. of Ohio, Pure Oil Pipe Line Co. of Pennsylvania, Producers and Refining Pipe Line Co., and United States Pipe Line Co. The holdings covered by these various concerns are extensive and take in some of the best oil producing property in their various districts.

One of the best purchases was made in 1916, when the so-called Gunsberg & Forman property, consisting of about 26,500 acres of oil bearing land in Oklahoma, was acquired. The Ohio Cities operations as an oil company are therefore quite extensive. Its total holding consists of about 425,000 acres of oil and gas lands, with 2,600 producing oil wells of an average daily production of about 13,000 barrels. In conjunction with this the company controls 2,300 miles of pipe line, five refineries, sixty pumping stations, six casing-head gasoline plants with a daily output of 24,000 gallons, tankage capacity for 3,000,000 barrels, forty-three distributing stations, and 789 tank cars and barges. Thus Ohio Cities is entitled to rank among the foremost of independent oil producers.

Public utility operations, though small compared with oil, are quite substantial.

They were enough to carry the company through in the old days of smaller capitalization, but whether they will prove a back-log in the face of a possible depression in the oil industry is doubtful.

Its Remarkable Financial Career

The first three years of oil did not result in a marked increase in earnings. The 1915 year ended with gross revenues of $2,645,740; in 1916 this increased to $3,209,98, and in 1917 to $5,740,047. As based upon a par value of $25 for the stock, this resulted in earnings of only $1.92 on the common in 1915, $2.30 in 1916, but in 1917 earnings jumped to $8.70.

Gross earnings for the year ending March 31, 1918, expanded tremendously. They totaled $39,929,135 and operating income reached $14,787,877. Net income after substantial deductions was $9,860,096 against $3,610,835 in 1917. The 1918 earnings were equivalent to 30.31% on the common stock, or $6.70 per share. Increases in capitalization are responsible for the seeming anomaly of three times as much net income (over the preceding year) with a falling off in the amount earned on the common stock.

The few good points in Ohio Cities Gas are to be found in the earnings situation. The profit and loss surplus has been continually strengthened as the surplus of $3,425,618 in 1918 added to the adjusted surplus of $44,991,201 (which, by the way, came about through the upward revision in assets), so that the year ended with a profit and loss surplus of $46,165,539. At the end of the twelve months ending Nov. 30, 1918, this figure was changed to $48,577,712 by the addition of accumulated earnings from March until that date.

The company's cash position is excellent. At the end of the 1918 fiscal year current assets were $14,965,016 against current liabilities of $4,576,712, leaving $10,388,304 in working capital. This position was maintained through the 1918 year as total assets amounted to $15,209,132 against current liabilities of $5,199,387 on Nov. 30, 1918.

Capitalization Increases and Their Significance

With the increase in the business turnover came increases in capitalization. On the volume of business done undoubtedly Ohio Cities Gas was justified in increasing its capitalization, but there is a certain limit that must be observed, and this company seems to be getting dangerously near that limit. From June to September, 1914, the outstanding capital was increased from $2,510,500 to $5,183,600. A few months later this was increased to $6,281,200. In June, 1916, another increase was made, bringing this amount to $7,633,800. About a year later $2,000,000 more was added, three months after that capitalization reached $10,000,000 in round figures, and at the end of the 1917 year it was increased over three and a half times, to about $35,000,000. Another capitalization increase is now under way. The company has offered $9,187,500 in new stock, which will bring the outstanding common stock up to $45,947,500. The funds received from this stock issue are to be used for expanding and extending the business of the company. There is talk of extending developments to Mexico and making further investments in Texas, presumably around the Ranger district.

Previous capitalization increases were either for the purpose of extending developments and purchasing new property or in payment of stock dividends. The

OHIO CITIES CAPITALIZATION CHANGES

	Preferred			Common		
	Authorized	Outstanding	Par	Authorized	Outstanding	Par
1916	$10,000,000	$9,002,100	$100	$10,000,000	$9,029,250	$100
1917	10 000,000	9,002,100	100	*100,000,000	36,750,000	†25
1918	10,000,000	9,002,100	100	100,000,000	36,750 000	25
1919	10,000,000	9,002,100	100	100,000,000	‡45,947,500	25

* Increased from $10,000,000 to $100,000,000 June 5, 1917.
† Reduced from $100 on May 4, 1916.
‡ New stock offered February and March, 1919, at par—amount $9,187,500.

Ohio Cities management has never been accused of being niggardly in paying for properties or companies acquired. There are not a few who maintain that the prices paid for companies such as the Pure Oil Co. were quite in excess of their worth.

What does this mean from the stockholders' point of view? Only that the company's capitalization is apparently getting heavy in comparison with its earning power. With a capitalization of nearly $46,000,000 in common stock outstanding, the dividend requirement at the rate of 20% per annum will call for over $9,200,000. Even for the twelve months ending November 30, 1918, net income amounted to only $10,116,223, or the best in the company's history. If the company is under obligation to disburse nearly all of this amount, Ohio Cities financial affairs are "running close to the wind," to say the least. Of course the company may decide to pay dividends in scrip, but this is only postponing the issue, and in the final analysis will put the company in an even more dangerous position as capital obligations are increasing all the time.

There are only two answers to this particular question. One is that earnings be increased substantially and the other that present earnings should be conserved instead of distributed so liberally. The first solution is the one most desired of course, but there are many difficulties in the way. It is much easier to spend money than to earn it, and Ohio Cities officers are as well aware of this fact as anyone else. There is no reason to believe that earnings will not expand gradually in accordance with the growth of the company, but most well-managed concerns are more interested in building a strong foundation and putting something aside for a "rainy day" than in distributing everything they make as soon as they earn it.

The accompanying graph shows clearly how liberal Ohio Cities Gas has been with its dividends. Very small sums (in proportion to earnings) were carried to surplus after dividends since 1915. In 1918, for example, the company earned only $6.70 a share on the common stock and paid the regular dividend of 20%, or $5 a share, leaving an initial surplus of $1.70. In addition to this a special dividend of 5% in stock was paid, bringing the total amount to $6.25 and leaving a surplus of only 45c a share. Earnings for the twelve months ending November 30 were only 26.27% on the $36,750,000 then outstanding common stock. On the present common stock of $45,937,500, these earnings would be the equivalent of about 22%, or only 2% over the 20% dividend required.

It cannot be denied, moreover, that Ohio Cities earnings were not large, and about as much as can be expected for some time anyway. The company was "war prosperous," and part of these earnings can be put down as war earnings. Even if these earnings can be maintained indefinitely, they are not sufficient to safely pay a 20% dividend on the common stock now outstanding.

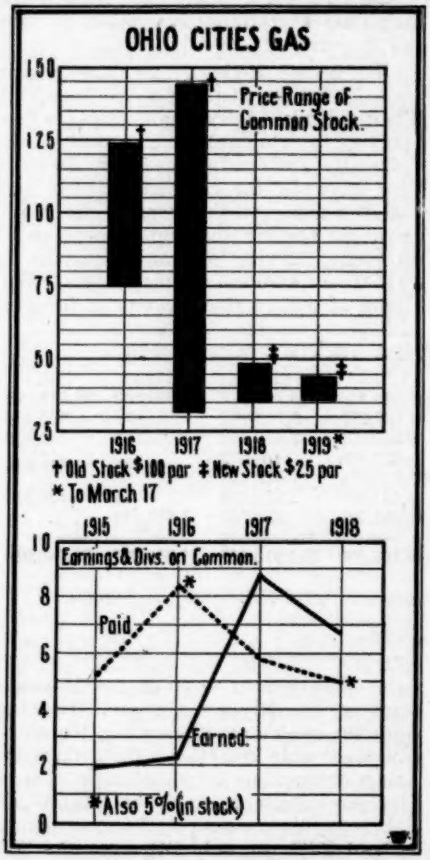
Although the company carries a depreciation charge, the income account does not show a depletion and amortization fund set aside for the decrease in value

FEATURES OF OHIO CITIES INCOME ACCOUNTS

	*1918	†1918	†1917	†1916	†1915
Gross Revenues	$44,970,898	$39,929,135	$5,740,047	$3,209,698	$2,645 740
Operating Income	12,388,831	14,787,877	3,740,467	1,266,422	982 868
Net Income	10,116,223	9,860,096	3,610,835	1,142,636	880,958
Preferred Dividends	474 388	473,866	474,000	762,665	630,124
Common Dividends	‡9,010,782	‡5,960,612	1,032,359		
Surplus	631,053	3,425,618	2,094,476	379 971	250,834
Previous Surplus	47,946,659	44,991,201	552,742	1,440,954	......
Profit and Loss Surplus	$48,577,712	$46,165,539	$43,916,867	$1,603,693	$1,440,954

* 12 months ended Nov. 30, 1918 (as reported to the N. Y. Stock Exchange).
† Years ended March 31.
‡ Includes $1,750,000 common stock dividends.

of oil and gas-wells. It would be interesting to find out what provision has been made for this contingency, as if an amortization charge of 10% annually



were deducted from the earnings for depletion of wells, etc. (and this should be done) net income would show up decidedly unfavorable.

Stock's Value

With the change in par value of the shares on the basis of four for one, the stock is selling at a price at which the company is valued about the same as it was when the high prices for the stock were reached in 1917. In July, 1917, the stock sold as high as $59 a share "ex-rights." On this price the valuation placed on the company was about $82,470,000. On the present selling price of about $41, the company is valued in round figures at about $60,000,000. This is a liberal valuation, to say the least. Of course on the basis of a 20% per annum dividend disbursement, a stock is usually entitled to sell substantially over par, and probably at double par, but other things must be considered besides the mere distribution of dividends. Earnings and the ability to maintain earnings are the guiding factors.

As an oil speculation, Ohio Cities may overcome the handicap of increasing capitalization in the face of large dividend disbursements, and may yet establish an earning power considerably in excess of the present. Unless it is able to do so, however, the dividends cannot be called safe and, should some of the ambitious plans for the oil development fail to materialize, the company may be obliged to save some of its money instead of paying it to stockholders in dividends.

In any event Ohio Cities Gas common cannot be classed as an investment, and at these levels I do not particularly favor it as a speculative investment, since the dividend is in a rather uncertain position. The stock is liberally valued at 41, present market price, and its market action indicates that the best informed are not particularly impressed with its prospects.

ANCIENT MORTGAGES

IN ancient Babylon, 2100 years before Christ, in the reign of King Khammuragas, money was loaned on mortgage. About 600 B. C. the great Babylonian banking house of the Egibi family invested large sums in mortgages on both city and farm property. The mortgages have been recorded on bricks, which were preserved in the safe-deposit vaults of the time—great earthenware jars buried in the earth. Dug up at the present day, they show the archaeologist when, where and how the mortgage originated.

MINING

Growth of Chile Copper

Annual Capacity of 160,000,000 Lbs. in 1919—Advantage of Low Labor Costs—Profit Possibilities in Convertible Bonds—Stock as a Business Man's Investment

By BARNARD POWERS

NO organization of smaller calibre than the Guggenheims could have tackled a proposition like that of the Chile Copper Co. with any hope of success. The gigantic enterprise belongs to this superlative age, and is one that required the highest type of enterprise and courage backed by the best engineering talent and abundance of financial resources. The Chile Copper Co. is the greatest mining accomplishment in the history of the industry.

Between eighty and ninety miles from the coast of Chile in the province of Antofagasta is the Chile property where the sun shines eternally and the rains seldom come.

In the midst of this wilderness the Guggenheims have already expended upwards of $50,000,000—and the end is not yet. The beginnings of this huge enterprise were in April, 1913, and already production has crossed 100,000,000 lbs. of fine copper annually. Chile Copper by all odds owns the greatest known copper deposit, and the limits of its ore bodies at depth have never been finally determined.

The blocked out ore lies in the shape of a huge rectangle about one and a half miles long and a little more than a third of a mile wide with the upper plane so near the surface that the outcroppings gave the hint of what lay below. There are what might be termed three distinct mines—first the uppermost body of oxidized copper where the workings now are, then a second level of "mixed" ore, oxidized and sulphide deposit. Churn and diamond drilling has gone down as far as 1,600 feet and then the drills were lost. No one knows how much farther down the sulphide ore extends, but as over a hundred years' ore is already blocked out there is no excuse for spending more money in development.

A section of the Chile Mine whose ore body is a mile and a half long and more than a third of a mile wide

Chile Copper at the end of 1917 had positive ore, *i. e.*, ore blocked out, totaling approximately 355,000,000 tons. Of this 233,000,000 tons is oxidized ore, 73,100,000 tons mixed ore and 48,700,000 tons sulphide ore. In addition there is probable ore which, if included with the positive ore, brings the total of ore reserves to 700,000,000 tons, with an average copper content of 2.12%.

On the basis of the 3,000,000 tons treated in 1917 the company has a life of approximately 118 years, while if one includes the probable ore it has a life of 233 years, without taking into consideration any further ore developments.

Unique Treatment of Ores

The treatment of Chile's ores is almost unique. There is but one other property in this country which uses a similar method, but on a very much smaller scale. No concentration or flotation is required. The ore is put through a series of crushing stages until it is finally reduced to approximately ¼ in. in size. Then it is mechanically dumped into huge vats where a very dilute mixture of water and sulphuric acid is added. The copper is dissolved out of the ore as a result of the addition and is held in the resulting solution. This process recovers over 90% of the copper contents of the ore. The solution is purified and subjected to electrical treatment, which precipitates the copper in the form of sheets. These sheets are sent to a smelting plant which converts them to ingots or wire bars of the first electrolytic grade.

As the ore contains suhphates which in the process produces sulphuric acid, there is little occasion for adding sulphuric acid from outside of the process. One might say, if the reader will pardon the mixed metaphor, that the Chile ore "fries in its own fat." For this reason the company in normal times and with a normal production should make very low production costs. Estimates as to Chile's costs have been very numerous, ranging as low as 5½c a pound, but according to the best of authority an estimate of 7½c is conservative.

Capitalization and Earnings

The writer recalls when the Chile Copper Co. made its first appearance before the public. The reports then current as to the size of the ore bodies and the scale of operations determined upon seemed almost fantastic, but have been more than substantiated by developments since. The growth in production is shown on the graph herewith. According to a Guggenheim representative capacity by the middle of the current year should

This photograph shows only a part of the huge leaching vats of the enormous Chile plant

approximate 160,000,000 pounds. Had the war continued the company would now be producing at the rate of 140,000,000 annually.

Chile Copper has two bond issues outstanding, an original one of $15,000,000 collateral trust convertible 7s, dated May 1, 1913, and due May 1, 1923, and one-half issued, and $35,000,000 collateral trust convertible "A" 6s, dated April 1, 1917, and due April 1, 1932. These bond issues are of more interest to the investor than the stock at the present time, as the latter is not paying dividends.

There is an authorized issue of $135,000,000 stock of one class, par 25, of which $95,000,000 is outstanding. The remaining $40,000,000 is reserved for the conversion of the bonds. The first issue of bonds, the 7s, is convertible into stock at any time at par, while the second issue is convertible into stock at any time at 35. It will be noted that not only does the second issue bear 1% less interest than the first issue, but it is convertible at a price 10 points higher. In other words, when the second issue was offered four years after the first issue, the development of the property had proceeded to such a point that it was possible to finance on a much better basis.

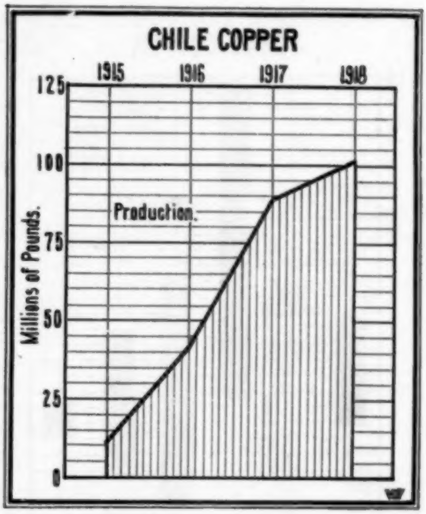
Initial Operations

The year 1915 saw Chile Copper Co. beginning production. In that year only 11,000,000 pounds of the metal were produced, while the following year saw an outturn of 41,000,000 pounds. In 1917 production exceeded 88,000,000 pounds, while last year the total exceeded 102,000,000. The 1918 output represents the present plant capacity, but an extension is now under construction which will permit of considerable increase this year.

It might be stated in passing that Chile Copper's production can be increased almost indefinitely. If copper market conditions warranted, the output could be speeded up to 300,000,000 pounds annually or more by the addition of additional equipment. Until the copper situation clears, however, there will be no increase in production beyond that already planned and under way.

A Timely Arrival

Chile Copper got on the production map just in time to meet the full force of war conditions. This makes the performances to date poor criteria for



the results the company expects to obtain. In 1916 the company earned 50c per share on its outstanding 3,800,000 shares of stock and $1.43 in 1917. Figures for the last quarter of 1918 are not yet to hand, but results for the first three quarters are reported as follows:

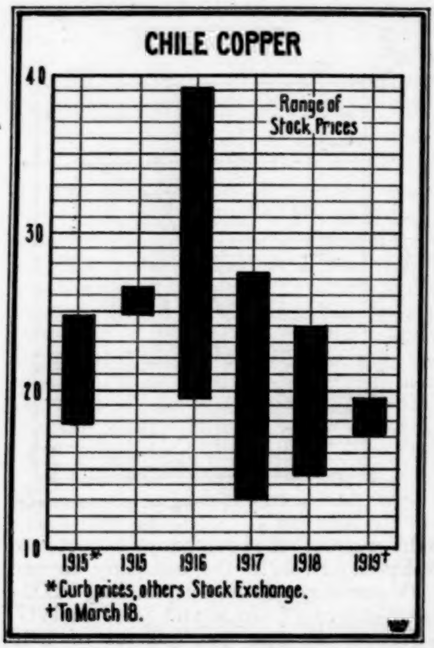
Profit on Copper	$6,958,999
Miscellaneous Income	224,230
Amortization Discount	105,000
Interest on Bonds	1,757,796
Exp. Chile Copper Co	48,557
Bal. Undivided Profit	5,271,874

If the last quarter of 1918 shows as well as the third quarter, there should be a balance of undivided profits in the neighborhood of $8,000,000 as compared with $5,440,000 net income last year after all deductions including

taxes. The 1918 figures include depreciation but not taxes. In 1917 the deduction for taxes was $505,233 and allowing $1,000,000 as the 1918 allowance there would still remain nearly $7,000,000, or approximately $1.75 per share on the 3,800,000 shares outstanding.

Production Costs

Like all other copper companies Chile Copper suffered last year from



high costs. The average cost per pound for the first three quarters of 1918 was in excess of 18c. In respect to labor, however, the company is very advantageously situated. According to a representative the company labor costs are now very much lower, due to the drop in Chile exchange, which in 1918 sold as high as 17½ pence and is now approximately 9 pence. This would put labor costs on a pre-war basis. At the present time there is a population of between 10,000 and 12,000 persons at the company's property. It is obvious that the selling price of copper produced in this country will bear a direct relation to labor costs, and if labor remains high after the war the Chile Copper Co. will have a distinct advantage in the world's markets. It can ship either to Europe or this country, according to the demand.

Position of Securities

In choosing between the two bond issues the investor must decide whether he prefers the higher yield of the 6s or the lower yield of the 7s which, however, offer greater chances of profit as they are convertible at 25 for the stock while the 6s are convertible at 35. At this writing the 7s are selling at 107½ and yield 6.5% at that price, while the 6s are selling at 84½ and yield 7.1%. The stock at 18⅜ is far below its record high price and not greatly above the record low price as shown by the graph.

In respect to security the bonds are about on an equal basis, as both are direct obligations of the company and are secured by the entire capital of the Chile Exploration Co., which is the operating concern. The 7s are a short term issue and mature May 1, 1923. If there should be any material improvement in the copper situation between now and that time they are in the best position to benefit. In the opinion of the writer the slightly greater yield of the 6s does not make up for the greater profit possibilities of the 7s.

The stock of the company is an issue which may be bought by the business man who wishes a long-pull investment and is willing to forego interest on his funds while the investment is maturing for the sake of the enhancement which the future should show. The investor who is unwilling to make brief market commitments because of the fact that above a certain point the bulk of his profits disappear in taxes, will find the stock of Chile Copper admirably adapted for his purposes, for by the time the property reaches full maturity the present incubus of taxation will, in all probability, be greatly lightened, and by that time Chile's stock should show satisfactory profits.

UNLISTED SECURITIES

Columbia Graphophone

War Demands for Music Records Swell Earnings—A World-wide Market for Product—Du Ponts Acquire Interest—Distributes Stock Dividends

By PRESTON S. KRECKER

TIME was, not so very long ago, when the so-called "talking machine" was regarded as a mere toy. Sound reproduction was then in its infancy and results attained were rather crude. Today mechanical reproduction of sound has reached a high state of perfection, and in this fact is explained the secret of the prosperity of the Columbia Graphophone Co., which manufactures the Columbia Grafonola, records and dictaphones. Its business in recent years has expanded steadily and at the present time has attained the highest volume in its history. The next annual report, covering the fiscal period ended December 31, 1918, will be released some time in April. It is predicted that earnings will run into very large figures, unofficial estimates making them about 35 per cent larger than those of 1917.

The extraordinary expansion of the Columbia Graphophone Co.'s business during a period when war activities were at their height is attributable to the big war demand for music for soldiers. Welfare organizations such as the Y. M. C. A. and the Knights of Columbus, which expended hundreds of millions of dollars in making army life comfortable for our fighting men, found that next to necessities the men wanted entertainment.

Difficulties were experienced in getting raw materials, also in shipping goods. Many raw materials advanced in price from 200 to 400 per cent. Lack of efficient labor and heavy increases in wage costs were additional handicaps, while war taxes increased the difficulties of the management. In spite of all these troubles the Columbia Graphophone Co. succeeded in so perfecting its organization that a progressive improvement in business is noted during all the war period.

The Columbia Graphophone Co. is the successor of the American Graphophone Co. through exchange of stock. The readjustment plan was declared operative in March, 1918. Eventually the American Graphophone Co. will be dissolved. All excepting perhaps one per cent of its stock has been exchanged for Columbia Graphophone stock and the delay in exchanging this remnant is attributable to scattered ownership. Provision will be made eventually to take care of all stock which fails to come in before the old company goes out of existence.

TABLE I—INCOME ACCOUNT

	Net Income	Dividends	Surplus for Year
1908	$ 2,537	$146,694	*$518,294
1909	238,117	36,673	*211,628
1910	519,002	....	*551,350
1911	702,981	....	136,953
1912	1,227,772	94,321	200,796
1913	720,161	162,489	265,460
1914	637,036	146,764	203,568
1915	1,988,401	334,115	520,196
1916	2,176,475	344,991	456,796
1917	1,722,772	493,164	141,032

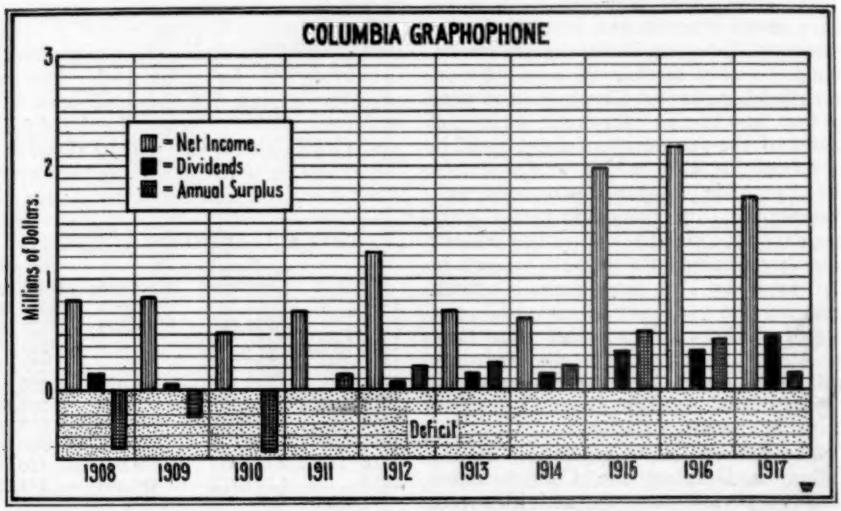
*Deficit.

Du Ponts Acquire Interest

Reorganization of the American Graphophone Co. was a sequel to the entrance into the company of the Du Pont interests. This powerful financial group acquired a substantial block of stock a few years ago and secured representation on the board of directors. The subsequent formation of the Columbia Graphophone Co. was done to take full advantage of the Columbia trademark. While the machines and records of the company

always had borne the name "Columbia," the distributing corporation bore a distinct designation, resulting in needless confusion. Moreover, the laws of Delaware under which the new company was organized, are more liberal than those of West Virginia, under which the old company was chartered.

The capital stock of the Columbia Graphophone Co. is divided into two classes, preferred and common. The preferred stock has a par value of $100 and is a 7 per cent cumulative issue. The total amount outstanding is $15,000,000.



The common stock has no par value. A total of 150,000 shares has been issued. The terms of exchange for American Graphophone Co. stock were as follows: The Columbia Co. gave one share of its preferred and one-fourth of a share of its common stock for each share of preferred stock of the American Graphophone Co. An alternative offer was made of one and one-tenth shares of common stock for each preferred share of the old company. For each share of common stock of the original company holders had the option of accepting one share of preferred and one-fifth share of common of the new company, or one and one-twentieth shares of common stock. The Columbia Graphophone Co. also assumed the bonded indebtedness of the original company. This consists of $1,936,800 first gold 6 per cent twenty-year bonds, falling due June 1, 1930, and $2,500,000 6 per cent serial notes, falling due in installments of $300,000 annually. The next installment will fall due May 1 and will be paid out of treasury cash.

The principal manufacturing plant of the company is located at Bridgeport, Conn. Nineteen buildings with 700,000 square feet of floor space, the buildings covering twelve acres of land. It has other factories in London, England, and Toronto, Canada. The company has branch offices in all the principal cities of the United States and has selling agencies throughout the world.

As the American Graphophone Co. has been supplanted by the new organization during the last year only, all financial surveys of the business going further back than this brief period necessarily cover the operations of the old company.

Its business record has been a satisfactory one and for the last eight years has shown a continually expanding volume. Dividends have been paid for more than twenty years with the exception of a few years, and have been paid continuously on either or both classes of stock since 1905. Following the organization of the

Columbia Graphophone Co., initial dividends at the rate of 7 per cent for the year were paid on both the new common and the new preferred stock. The company had been paying at the rate of 7 per cent on the preferred since 1914 and 7 per cent on the common since 1915.

Stock Dividend Distribution

At the last dividend meeting of the board of directors it was voted to increase the cash distribution on the common stock for the quarter to $2.50 and also to make a stock dividend distribution of one-twentieth of a share of common stock on each share outstanding. Figuring par at $100, this was equivalent to a 5 per cent distribution in stock. A resolution adopted by the board of directors at the meeting declared it to be the policy of the company to continue such payments on the common. Thus it has been placed on a 10 per cent cash dividend basis and a 20 per cent stock dividend basis. Treasury stock will be issued in payment of the stock dividend. The distribution of a stock dividend was the result of a recent decision of the United States courts that a stock dividend is not taxable as income under the income tax of 1918.

The company has steadily improved its cash position in the last few years and today it is stronger than ever. The last annual report showed a working capital of $8,210,042, compared with $6,381,328 the previous year. In all probability the forthcoming report will show an even better position. Cash in treasury as of December 31, 1917, amounted to $1,377,-965, whereas today the company has probably close to four times as much. A corresponding increase in surplus from $2,188,178, as reported in the annual statement of 1917, probably will be shown.

Columbia Graphophone stock is not listed on the Stock Exchange, although it is expected that arrangements will be made for doing so in the not distant future. It has an over the counter market but is so closely held that only small blocks of shares can be purchased. The preferred has been quoted recently at 92 bid, offered at 93. The common is quoted around 180 ex the $250 cash and 5 per cent stock dividend recently declared. These dividends are payable April 1 to stock of record March 15. Prior to the time the dividends came off the common had been bid up to 180. The lowest price at which American Graphophone had sold in recent years prior to absorption by the Columbia was $72 a share in December, 1917. The new stock last year sold in the 60s early in the reorganization. The high record for the American Graphophone old stock was $195 a share, paid in September, 1916. This was the level touched when the Du Pont interests were buying into the company. It is understood that the Du Ponts paid an average of $164 a share for their holdings.

TABLE II—WORKING CAPITAL
Dec. 31, 1917

Current Assets	
Cash	$ 1,377,965
Accounts Receivable	3,726,321
Inventories	7,874,521
Total	$12,978,807
Current Liabilities	
Accounts, bills payable, interest and taxes accrued	$4,768,765
Net Working Capital	$8,210,042
Same, Dec. 31, 1916	6,381,328

What the increased cash dividend together with the stock dividend will mean to stockholders if these distributions are continued at that rate, is readily calculated. As each share will receive four stock dividends annually of one-twentieth of a share, the stock dividend will net the holder of one hundred shares twenty additional shares of stock each year. At the current bid price of 180 for the stock, assuming that the market maintains that level, these twenty shares will be worth $3,600. The holder will receive in addition ten dollars a share in cash or $1,000 on his hundred share lot. Thus the total dividends he will receive in the course of each year will net him $4,600, which is approximately $46 a share. This is equivalent to a yield of 25%, which would indicate that the price of the stock had not discounted the new dividend situation.

The Searchlight

The Order Blanks Used by Some Curb Brokers, and What They Really Mean—More About "Gold Bricks," the Great American Commodity

By "QUIZZ"

THE alchemists of old devoted much time and thought to the secret of cause and effect surrounding geological phenomena, believing that nature was merely a laboratory on a large scale in which action and reaction were taking place by accident rather than design.

The molecules of matter were, according to their lights, juggled hither and thither by "natural causes," and whether precious gold was produced in one region or base lead in another mattered little to the chemist—the materials being of common origin and equal cost. The alchemists, working upon the theory that science could duplicate nature's processes, devoted their lives to the task of transmuting the baser metals into gold, by a scientific reblending of "raw materials" in laboratories controlled by man.

Of course, the alchemists failed. However laudable their efforts were in supplying to their lights, juggled hither and mation based on scientific research, they did not produce anything commercial, and starved for their pains. Even Moissan, the celebrated French chemist, who succeeded in manufacturing diamonds upon an uncommercial scale, is not reputed to have had his epitaph set with the precious stones he was able to manufacture.

The Modern Alchemists

The modern alchemists have, however, with considerably less labor succeeded where their predecessors failed. They have solved the problem of transmuting something worth less than lead into the king of metals, in a commercial form that seems to have no lack of buyers, and the process of evolution whereby this wonder has been accomplished deserves a little more study.

This brings us to a more critical examination of that great American commodity, "the gold brick," product of the modern alchemists, and beloved merchandise of the great army called "the Unsophisticated."

That the average buyer is "unsophisticated" is a statement that few will challenge, but the writer need only give one glaring proof of an evil that is founded upon the ignorance, carelessness, laziness or the sublime faith of the majority of those who buy and sell stocks, particularly the low priced variety that are cheap *because they deserve to be cheap.*

"What has all this to do with alchemy, the alchemists, and the transmutation of base metals into gold?" you ask.

We are examining the chemistry of gold (and other) bricks and are endeavoring to see how the modern alchemists go about rearranging the molecules which enter into their composition. Every factor is a molecule, and every detail is a link in the chain of circumstances. It is the misunderstanding of the underlying details that is at the bottom of the trouble, and it is our task to tear apart the finished product and lay each part on our dissecting table for plain examination.

Does the average investor ever study the order form he gives his curb broker or the answer to that order—the certificate confirming its execution? The average answer comes promptly, "Why, of course——." The writer denies this and answers thus: "I look at the price and either grin or kick: *I never read the nonsense in small type.*"

But the small type is not there by accident, and the people who put it there must have some good use for it, or why pay the printer?

It has a very good use, gentle reader, and, in fact, is sometimes the biggest molecule that the curb investor has to swallow; mostly to *his* disadvantage.

We present below a molecule, consti-

tuting 90 per cent of an order form of a very large curb brokerage house which the investor *thinks* he reads, but on general principle *does not.*

In reproducing this unimportant detail of your order in analytical form, no disparagement is intended to the house concerned as the form is the usual one, and this criticism is for the investor who fails to take care of himself. The capitals are ours and the *black type* our own idea.

It does not require an analytical mind, *after reading* this molecule, to discern that this is equivalent to an order to the curb broker to do anything he pleases. It disregards the fact that a broker is in the eyes of the law *the agent* of the customer, and in fact makes him the customer's *executioner,* without benefit of trial or clergy.

It is somewhat doubtful whether the curb broker can altogether be blamed for exacting a contract which is entirely favorable to himself, and, in less scrupulous hands, dangerous to the customer. This particular firm may be the soul of honor and may possibly decline to take advantage of the autocratic powers voluntarily placed in its hands by its lazy, careless, or indifferent customer. Conversely, the customer may be satisfied to vest his broker with arbitrary and unlimited powers over the disposal of his securities, in which event he cannot complain if he is badly treated and "The Searchlight" can teach him nothing.

Why the Small Type?

Psychology plays an important part in every business, and its peculiar effect on the customer-mind is carefully worked out in the brokerage business. About 90 per cent of those who buy or sell curb stocks, it has been shrewdly observed, do so in a hurry. The majority do their buying on glory and their selling on gloom, and these spasms hit the customer-mind quickly. The order form is made and signed under the influence of hope or fear, but nearly always in a hurry.

The writer feels sure that this form of agreement in reliable hands is a protection to the customer and broker alike, as it can be the means—when properly used—of preventing heavy losses. But dynamite is also useful. It depends on who plays with it.

There is only one way with the small-type menace. Get a magnifying glass if necessary, read it slowly and carefully, and then make sure that you need have no hesitation in placing your first investment brick on a foundation that is based essentially on mutual confidence. As long as you *know* that your broker can do as he pleases with your securities the blame is yours if you have failed to investigate.

The above molecule means what it says, and it is *not* a "matter of form." It is a very serious agreement and unless the holder of it is very reliable he should not be entrusted with arbitrary powers, be the words of the contract the size of pin-heads.

> **"It is agreed between us that all orders are received and executed subject to the rules and customs of the market or exchange (and its clearing house if any) where executed, and with the distinct understanding that actual delivery is contemplated. That all securities purchased or received for my account as COLLATERAL or OTHERWISE, may be transferred to YOUR name and may be LENT by you or may be USED by you in making deliveries or SUBSTITUTIONS IN YOUR BUSINESS, or may be pledged by you either separately or TOGETHER WITH OTHER SECURITIES, either for the sum due thereon or FOR A GREATER SUM, all without further notice to me and with my consent, which is hereby specifically given. That you may, whenever in YOUR judgment it appears necessary for YOUR protection, close out my account by buying or selling at public or PRIVATE SALE without ANY further call or notice to me, and without tendering to me any securities CONNECTED IN ANY WAY WITH MY SAID ACCOUNT."**

The writer need not explain what the broker can do to the customer's securities under a "matter of form" pin-head contract. It would be more difficult to explain what he cannot do.

Why a Pin-Head Contract?

Reputable curb brokerage houses take the pin-head contract for mutual protection. These firms are probably able to "carry" the customers' securities with their own funds. But more often than not, the volume of business transacted on margin makes it impossible for weaker firms to shoulder the burden alone

and they are either compelled to borrow money on these securities, or *to sell them in the market or to other customers.* An increase of margin business often accentuates the trouble, since the average curb customer seldom deposits more than one-third of the market price, making the two-third burden assumed by the broker larger and larger as his business grows.

When selling pressure is automatically brought to bear on the heavily-laden curb broker, he sells—and stocks go down. The broker gets the full market value because he is first on the field. The customer comes off second best, because the decline reduces his equity and he must pay or sell—*at the reduced quotations.* It matters not that the broker has really sold long ago at higher prices for the purpose of supplying capital. The customer is helpless because under the terms of the pin-head contract he would be unable to claim the proceeds of, or even identify his own stock.

In fairness to those firms that do a legitimate business it must be conceded that they are equally powerless in the matter as they would also be unable to identify any individual certificate with a particular sale in the shuffle of rapid finance. There is nothing particularly sacred about a "street certificate" any more than one potato is different to any other in a barrel of potatoes. The pin-head contract encourages the "use" and "substitution" of customers' securities with those of other customers, and further shuffling with those of the firm itself.

Why the Shuffle?

Unlisted securities of the type usually known as "curb stocks" and very many of the inactive variety which have an over the counter market and sell at a low price are seldom, if ever, acceptable collateral security for a loan from a banking house.

How is the brokerage house able then to "carry" such securities upon a one-third margin basis? It depends on the brokerage house. If it is reputable, it lends its own funds as far as possible and borrows the balance on its credit and resources from lenders willing to transact the business on terms. If its credit is good it borrows cheaply: otherwise the borrowing process is likely to be burdensome at first and ruinous in the end. Banks do not lend their funds for the purpose, and in fact cannot do so. Private lenders charge high for loaning on what is regarded as "speculative collateral," the rates varying from 6 per cent per annum to those with good credit, to 24 per cent to those whose credit is questionable.

Some cannot borrow at any price, and are in the class who (to use the phrase of our Editor) "carry their transactions on their cuffs, and sometimes—*wear no cuffs!*" In their case, capital (their *own* capital) is a very minor consideration as customers supply all the capital they need, and more. Every margin deposit and every share of stock is so much more capital, since it is their creed to convert everything into money. Nothing is bought here: everything is "booked": the customer takes the risk by paying a bonus of 6 per cent on alleged borrowed money for the privilege of losing in the end.

Not All Black Sheep

The legitimate curb firms who actually buy and hold their customers' securities, charging commission and reasonable interest on the money they lend their customers, cannot make bonanza profits. Their overhead charges are exceptionally heavy and their commissions none too liberal a reward for the care and responsibility assumed. They only receive a moderate return on their capital and depend upon such return, plus the narrow margin of profit between commissions and their expenses. Sometimes their credit permits them to borrow at a very nominal rate, particularly where their borrowing is of a temporary character.

If they are not fortified with exceptional and favorable credit facilities in addition to personal capital adequate to the business handled, they cannot make a profit on 6 per cent and commissions if they do a margin business. Brokers doing a strictly cash business are, obviously, better off since their overhead charges are comparatively small, their risk negligible, large financing unnecessary, and legitimate smaller profits more certain to accrue.

Cotton Prospects Bright

Canvass of Conditions Governing the Future—The World's Bare Shelves and Europe's Needs—A Late Season and Scarcity of Labor and Materials

By R. H. HOLMES

DURING the past few weeks, and even at this particular moment, there is a general wave of what might be termed pessimism, involving not only other parts of the world, but having its effect in this country also. There are, of course, a great many reasons for this with which every individual is more or less informed, so that it is not necessary to go into the particulars from an economic viewpoint. The discussion undertaken in this particular article is with reference to the cotton situation, and it is the purpose of the writer to apply all the fundamental economic conditions existing to the cotton situation only.

Situation Fundamentally Bullish

There has never existed for cotton so fundamentally a "bullish" situation as exists today, although there are supplies of cotton in America which, at first glance, would appear to be an argument from the "bearish" viewpoint. In fact, the writer, who has recently returned from the South, saw more cotton in evidence than at any time in the past at this particular season. The warehouses were filled to capacity, bales were stacked outside, depot platforms were piled high, bales seemed to be dumped in every available open spot, wagons were hauling cotton to the gins, and it was piled up inside and on the galleries of the cabins. In addition, in the Carolinas there remained quite a large percentage in the fields.

This situation, which would appear at first to be "bearish," applies solely to America. In all other parts of the world there is a pronounced shortage. There is a shortage in raw cotton, in the finished article, and there is a shortage in the homes of all peasants and even of the wealthy. We venture to assert that there are thousands of homes throughout Europe which cannot show one dozen towels, or one-half dozen extra sheets. In the poorer homes there is a total obliteration. The mills of Germany, Austria and Russia have been completely stopped for four years. Those of England, France, Italy and the smaller countries have been running on very short time.

For generations practically the whole of South America, Central America, Africa, Australia and Asia, with the exception of Japan and China, have received their clothing supply from Europe. This supply was vastly curtailed during the four years of war, and during the war countries like Canada and other provinces of England were compelled to come to us for whatever cotton goods we could sell them.

Everybody but the consumer has stopped buying. The consumer has not stopped consumption, and the retailer will assure you that the present demand is almost insatiable, and that he is filling this demand at the expense of his reserves.

We are facing a peculiar position because mills are accumulating stock, but are running no more than is necessary to keep their organizations together. The cotton planters are going about in a businesslike way with good leadership, in an effort to reduce their acreage this spring, and they are reasonably sure to do this. The coming crop is getting a very late start and even today the ground in every part of the South is too wet to plow.

Fertilizer for a large crop will certainly not be obtainable, labor for the farms is scarce and unwilling, and owing to the plentifulness of money, this labor is becoming inefficient. The world is fast getting to the bedrock basis of the

demand for cotton products, which will meet a supply that must of necessity be inadequate.

As Europe is restored it is but natural to expect restoration in the commodities manufactured of cotton. A total return to the normal is not to be expected because it is impossible of accomplishment, but an attempt at a return to normal conditions will be made, and this attempt will necessarily create an abnormal demand.

Depletion of Stocks

Look at your statistics and see how depleted our stock of every commodity is. Coffee, that we import from Southern Brazil, Venezuela, United States of Columbia, the West India Islands, Mexico, Java, Arabia, and the Philippines; sugar from Northern Brazil, the West Indies, Hawaii and other islands; rubber from all the tropics; tea from China and Japan; spices and jute from India; tobacco from Turkey; wool from Australia, New Zealand and Peru; hides from Argentine; chemicals and herbs from everywhere; and so on *ad infinitum*. We will give you the figures of one commodity only. Coffee stock, for illustration:

	SACKS
Coffee Stock now in New York....	**350,000**
Coffee Stock one year ago..........	**1,700,000**
Coffee Stock beginning of war.....	**3,000,000**

European stocks are practically exhausted in all the commodities. The countries mentioned are just as bad off, or worse for what they need from us—our cotton, our tobacco, our kerosene, fats, oils, steel and iron, coal, timber, foodstuffs and manufactured articles. The thing that is lacking is confidence. Credit, which means, as you know, a thousandfold more than money, will be forthcoming when confidence is with us. Confidence will come to us as the European situation clears, and it is bettering itself every day. Then this tremendous vacuum in everything everywhere will begin to clear itself. We believe that a five to ten year period must elapse for the world to become economically normal.

Milling Interests

We have noted previously how the mills of other countries, whose productions were utilized by the world, have ceased operations. With respect to the future of European mills a resumption of manufacture cannot be resorted to until a certain supply has been obtained. The restored mills throughout Northern France and Belgium must have a reserve of cotton before commencing operations. This applies even more strenuously to the mills of the Central Powers. It strikes us that to put the mills of Europe in operation there must be a reserve in the warehouses in excess of immediate requirements of probably a million bales or more, and resumption, we are told, is now in prospect not only in Belgium and Northern France, but in the large manufacturing field of Austria that has recently been awarded to the Czecho-Slovak nation.

We wish to accentuate and call particular attention to the fact that the Central Powers will have need of quantities of the lower grades of cotton, and that these grades of cotton at prevailing discounts are very, very cheap. In fact, they are cheaper today than in pre-war days, and will afford a rare opportunity to the manufacturers of Germany and Austria in the resumption of their trade relations with the outside world. Any buying in the volume of these lower grades is certain to stimulate the general list and make for higher prices on the whole.

Acreage and Labor

It has been noted above that the acreage this coming season is likely to be reduced and that labor conditions are in the worst possible way. A concerted effort is being made among the most influential interests of the South towards the curtailment of acreage. We believe that it will largely succeed, due not only to a resolute stand among the larger growers, but to the general conditions prevailing as regards labor.

The negro labor of the South has been demoralized by war. Every negro conscript, if he had a wife, has seen to it that she has been provided for. If he had no wife, he usually married before leaving for France, and in numerous instances acquired a ready-made family of a half dozen children or more. As a

result the Government has been providing for thousands upon thousands, and those who know the negro know that he works only when hungry. He lives today and cares nothing for the morrow. Consequently, until he is again hungry the South will be short of labor.

Added to this distressing factor is the lateness of the season, due to excessive rains. Little or no preparation has been made for the planting of the coming crop, and though under normal conditions the time could easily be made up, under present conditions of labor shortage, it would be practically impossible to plant anything like the normal in acreage, and we must, because of the above factors, expect a shortage.

Local Conditions

The general cotton trade has been disrupted and thrown into a condition of uncertainty through the passage of the Lever Amendment governing cotton futures. This eliminates about seven grades from delivery upon contracts, ranging from strict good ordinary white to strict middling blue stained. A preponderance in the recent past of low grades of cotton in tenders has weighed heavily against contract values and has caused at times a disparity of some four or five cents a pound between the value of future contracts and the value of middling cotton.

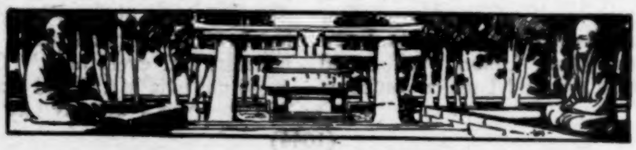
The elimination of these undesirable grades will, no doubt, restore the contract to a practical parity with spot cotton and this will, without doubt, make for a general betterment of the trade.

However, it is the contention of some that the contract is now a "buyer's" contract, but we believe that the contract is simply an equitable one which, on the whole, will represent more closely the true value of cotton than has ever obtained in the past. We believe that the contract will claim the attention of the spot merchants, of spinners, and of all those legitimately interested, and that the market will be materially benefited thereby.

In a previous article we called attention to the fact that the cotton industry was about to take off its coat and get down to real work. On account of many uncertainties in other lines of industry, there was a wave of steadfast breaks followed by what might be termed a "false move" toward prosperity. The natural reaction occurred and the general attitude was that this country must necessarily pay the penalty from delays and stagnation. This situation, although fundamental, may be carried too far, and it is likely to be the case, especially with relation to the cotton trade. Actual peace will soon be here, and when it arrives the readjustment will have been accomplished, although not readily seen by the general public. Activity in the cotton trade, however, will at once become stimulated, and it will be one of the first of the industries to forecast a general activity the world over.

The demand for cotton, together with all other raw materials will, without doubt, be huge. The Congress of Paris will certainly succeed in its undertaking. The announcement of the finished plans without respect to their eventual ability to solve all the problems will bring immediate relief to the world.

In résumé, therefore, we look for the resumption of hedge business in volume and to a return to the normal in straddling operations. The contract in cotton is now a Government contract. It is subject to Government regulations in toto, and as a consequence will be free from adverse and injurious criticisms. Higher prices must eventuate, and those who take advantage of the situation just now and are able to maintain their position should reap a commensurate reward. To clarify the situation promptly ships aplenty must be had, and with them permission to freely sell to all parts of the world.



TOPICS FOR TRADERS

Prominent Wall Street Men I Have Known More or Less Intimately

By J. ARTHUR JOSEPH

G. P. MOROSINI was a remarkable character. Broad shouldered, 6 feet 2 in height, weighing 240 pounds, without an ounce of surplus fat, but all sinew, he looked a typical soldier of Northern Italy. Although he had been in the United States almost two score years, he never lost his accent, and the Latin tinge which he unconsciously gave to the tongue of his adopted country was musical and very impressive.

He was at one time confidential clerk to Jay Gould. The office was then at 71 Broadway, on the second floor. There were two large windows, and the floor was carpeted with heavy velours. Mr. Morosini's desk was midway between the door opening from the outer office and the one leading to the private den of Washington E. Connor. Before one could reach the sanctum sanctorum one had to pass through the main office into the private room.

"Charlie" Osborne came in one day and saw Gould. He had a brief interview, standing just abaft of Morosini's desk, at which he was seated. Osborne, *sotto voce*, told Mr. Gould that William H. Vanderbilt was apparently endeavoring to get control of Union Pacific, "and," he added, "I should not be surprised if he ran the stock up to 90, before the 'Commodore' could get anything like his quota."

Morosini was very much interested, and at the first favorable opportunity he ran out to a broker and bought 200 shares of U. P., paying 60 for it. On his return he called the telegraph operator, Sheridan, over to him and said, "John, watch out! If Osborne shall coma in and speaka to Mr. Gould, listen what he say about Union Pacific, and then you tella me, and I maka you some money."

Osborne never came in while Sheridan was around, but one afternoon, soon after lunch, he put in an appearance. Morosini, as usual, was busy at his desk. Mr. Gould and Mr. Osborne sat near the entrance door, their chairs were to the back of Morosini's desk, and they were in secret but apparently important confab. Morosini, all alert to catch a word, strained his ears ineffectually. He then began to move his chair quietly backward,—the carpet deadened all sound. After a strenuous effort he got almost within a foot of the two gentlemen, who were discussing Union Pacific, and he was just in time to hear Osborne say:

"It would not surprise me at all, Mr. Gould, if that scallawag Vanderbilt should break the stock to 20 in his efforts to frighten out holders."

Morosini gave ejaculation to one word—"W-H-A-T," startling both Gould and Osborne. Gould, in his quiet, inquisitorial manner, asked, "What do you mean, Morosini? You shriek loud enough to awaken the dead in Trinity Church Yard." And Guiseppe answered, "Excusa me, Mr. Gould, I was so nervous—Mr. Osborne the other day tella you the stock go to 90; I buy him at 60; now he say go to 20, and it frighten me, and dat's why I shriek out lika dat."

Gould was interested, and asked Morosini how much stock he had, and to quote Mr. Morosini, as he told the story to me:

"I didn't knowa what I say, because I tella Mr. Gould I have five hundred share that I buy at more than 60, and then Mr. Gould he turna to me and say, 'Dat was very wrong, Morosini, but it should be a lesson to you. However, you senda the stock in to me, and I take it off your hands at the original price, and pay the interest, and everything.' Of course, I could not tella Mr. Gould that I only had 200, because I already say it was 500,

and I feel like I took the difference of $12,000 that I should not have take, but I hadda the consolation after of buying odder tings what Mr. Gould tella me, and which went all wrong, to know he got more than his money back."

* * *

James R. Keene "had a heart." I never knew a man who traded in this vicinity that did more things liberally, or at times more impulsively, than he. A couple of weeks after the Northern Pacific panic in 1901, his horse, "Cap and Bells," pulled off the $50,000 prize of the Ascot races. He sent for me and said:

"Now, Joseph, I want to give this $50,000 away to some charitable institutions. You know most of them—just jot down their names, and we will send from a thousand to five thousand dollars to each."

I started with St. Luke's Hospital, St. Vincent's, and a number of other Metropolitan institutions, but I omitted to put down any Jewish names, and Mr. Keene said:

"You're a nice Semitic, you are! It's my money that I am giving away, and yet you don't mention any Hebrew places. Now sir, put in Mt. Sinai Hospital for $5,000 and the Jewish Orphan Asylum for $5,000—that will be 20% of the $50,000, and think up some others. I guess there's as much worth in one of these places as in another, whether or not they all require support," and he gave away the $50,000.

The same day he bought a diamond necklace, the like of which I had never previously seen, and the counterpart of which I am never likely to gaze upon again. Some of the stones were as large as peanuts and some of them the length of a lady's finger. He paid $280,000 for that necklace, and after I had admired it he said:

"Now, I haven't bought this for any chorus girl, or for any other stage lady. I have purchased it for my wife. You know she has been bedridden for many years, and it is only baubles such as these, that are dear to all women's hearts, that give her a little pleasure. She will never wear it, but she will look at it, and it will afford her just as much gratification, and more, than could a check for $250,000—so that's why I am inclined to be a spendthrift."

* * *

Isidore Wormser was a whole play in himself. His humor was unconscious, and yet so bright. I had drawn a check from the firm for $1,000, and Mr. Wormser, as he handed me the paper, inquired, "Vat are you going to do with all that money?" I answered, "I am going to meet my wife up at Horner's on 23rd Street this afternoon, and am going to buy some furniture," and he replied:

"Do you know anything about furniture? The reason I ask you is this: I vas an apprentice to an upholsterer in Chermany, and Simon vas apprentice to a Provost—vat you call here a lawyer. Vell, dat doesn't make no difference—Vat I want you to tell me is, if you can distinguish between pig's hair and horse hair."

I answered, "Why, I know that one is longer than the other, and I know that they have different market values."

"Is dat all?" flashed back Wormser. "I say you know noddings. Now I shall tell you what you must do. Your vife, you say, is going to meet you at the furniture store. Vell, after you have selected vat you vant, get your vife to take the salesman to the back end of the show-rooms. Then you take a sharp knife, and vhen dose other peoples are out of sight, you sit down on von of the shairs, cut away the burlap from underneath, grab a handful of the hair vot it is stuffed mit, and bring it down to me tomorrow morning, and I shall tell you whether it is horse hair or pig's hair."

Needless to say, I didn't want to put my wife in any compromising position, nor did I desire to make a felonious attack upon the furniture to which I had no legal title, so I let Isidore Wormser's kindly advice go by default.

* * *

Sam Lavanburg was the greatest Malaprop that I ever met. It was impossible for that man to get a phrase of four words straight. In fact, he could not use two words in their correct sense.

One day, around lunch time, I met him in the old Hoffman House on the corner of New Street and Exchange Place. He was standing at the bar. I remarked, "Sam, you don't look as chipper as usual. Has the market gone wrong with you?"

"It isn't the market, Joseph—I have come from the doctor and he tells me that I nearly got nervous persecution, and I mustn't drink nothing but vicious waters."

* * *

Jefferson M. Levy apparently is coming back. Since the war broke out in 1914, he had a very hard row to hoe. The collapse of Canadian Pacific, the break in steel, and the tobogganning of other stocks, with which he was identified, to say nothing of the rapid decline in real estate, of which he was a heavy holder, put a pretty bad crimp into what once was a princely fortune. In his halcyon days Congressman Levy ran big pools in Canada Southern, Canadian Pacific, and a score of other issues. He trailed along with the Gates-Hawley-Sully crowd. However, Dame Fortune, which had turned her back upon him for two or three years, seems now to be in a more friendly mood, and I hear that after a very severe attack of neuritis, brought about through the dwindling of his fortune, he is now getting back on Easy Street, and, Richard Coeur de Leon like, he will soon be himself again.

* * *

"If you want to deceive the crowd on the floor of the New York Stock Exchange, all you have to do is to play in the direction that you want a stock to go, and rank and file professionals will always copper you. They never put any reliance upon the direct operations of a man."

That is what Wash Connor said to me one day, after he had been "on the floor," and began selling Missouri Pacific down, on an order that he had received from Jay Gould, for the best of all reasons—that he wanted to get out a line of 20,000 shares, and he did not wish to transmit his orders under cover through other brokers.

The result was nearly every trader bid against Mr. Connor, who got off his line at prices that never could have been obtained had he not made what traders thought to be a "bluff" to inveigle them into selling a stock at a time when he was ostensibly parting with it only for the purpose of increasing the short interest.

* * *

Governor Roswell P. Flower, like the man who made the dollar famous through his cheap watch, made B. R. T. the talk of the town. He managed to lift the price from away below 20, to within 2⅜ points of 140.

At that time the conductors on the road were "knocking down" fares after a manner to cause heart failure to the most robust shareholder. I asked the Governor one day why he didn't let the stockholders have a chance to work as conductors, especially as they were not receiving any dividends.

There was one motorman on the road, who had been there three weeks, who had failed to collect his pay envelope. The superintendent told the inspector to send this man, Mike Donovan, down to the office, and at the end of a route he was met by an overseer who said, "Mike, the Supe wants you at the office right away."

"Is he going to take my job away from me?" asked Mike.

"Of course not, but you have got to go down, because he wants to talk with you."

The man went, and the inspector inquired, "How comes it, sir, that you have not been here in the three weeks that you have been employed to get your pay envelope, which has been ready for you each Friday morning?"

The motorman replied, "Stop your fooling, superintendent. Is it for this that you have taken me off the cars and made me lose a trip? Sure, I thought that you wanted your men to work, and not to come down to the office, answering fool questions. Why haven't I been here to collect me pay, sez ye? Isn't it the conductor that pays me himself every night, when he goes off the car? So what would I be coming down here for?"

Is Short Sales Report Necessary?

Rule Adopted Because of Special Conditions—Not a Good Business Principle—Need for Its Enforcement Has Apparently Passed

By R. L. HARRIS

SHOULD the New York Stock Exchange ruling, made November 1, 1917, requiring Stock Exchange firms to submit to the Committee on Business Conduct a report on short sales, be repealed?

This vital question has been foremost in the minds of many of the Stock Exchange members since the Armistice was signed, especially since there is no obvious reason for its retention. Many arguments might be offered against it. The Stock Exchange has, as yet, given no indication of what action will be taken in the matter and when, nor has any direct comment appeared from official sources.

Not that the rule imposes a direct hardship nor does it impair business or restrict transactions to an appreciable extent, but it is rather unfair that any man or group of men should have the advantage of knowing the technical position of the general market or even the technical position of a given stock. The advantage of such knowledge is obvious.

While it is, of course, ridiculous even to assume that such advantage would be taken, a situation that is not relished by Stock Exchange firms prevails. The clerk or clerks who compile this information daily possess data far more valuable than any "insider" ever dreamed of having.

The necessity for such a rule has to all intents and purposes passed. Many customers of Stock Exchange firms who were heartily in favor of the rule during the war now claim that they are entitled to as much privacy in their transactions as they previously had.

THE SHORT SALES REPORT RULE

New York, Nov. 1, 1917.

To the Members of the Exchange: At a meeting of the Governing Committee held this day, the following was adopted:

RESOLVED, That all members of the Exchange, or their firms who are borrowing stocks either for themselves or their customers, are required to furnish daily by 12 o'clock noon, to the Committee on Clearing House of the New York Stock Exchange, at 55 New Street, a list of all stocks borrowed; such list must state the name and amounts of borrowed stocks and from whom borrowed.

At the same time they must deliver in a sealed envelope a list of the names of customers for whose account such stocks are borrowed and the amount borrowed for each customer. These sealed envelopes will be inspected by the Committee on Business Conduct at their discretion.

RESOLVED, That all members of the Exchange, or their firms, who are lending stocks, are required to furnish daily, by 12 o'clock noon, to the Committee on Clearing House of the New York Stock Exchange, at 55 New Street, a list of all loaned stocks, the names of the borrowers of the same and the amount loaned to each borrower.

GEORGE ELY, Secretary.

Why the Rule Was Enforced

During the latter part of 1917 securities on the New York Stock Exchange steadily declined, and in many instances there were sharp breaks. Falling prices were in some cases due to basic conditions and in some cases to the technical situation. At any rate, stocks were declining and the Government and large banking interests feared that public confidence was being impaired, and this was an unsatisfactory situation in the face of the Government's current and growing necessities for borrowing money to prosecute the war. It was feared in some quarters (although no proof was obtained then, nor has been since) that some large oper-

ators were selling stocks promiscuously for the sole purpose of depressing the market.

There were other reasons, of course, the most prominent among them being an effort to obtain information against suspected German selling for the purpose of depressing the market. In addition, at that time, there were disquieting rumors circulating throughout the country and the Stock Exchange authorities, for their own information and for the benefit of the Government, wanted to determine whether these rumors were circulated in order to cause unrest among security holders. In face of such a situation, the move made by the Stock Exchange was commendable and highly endorsed by most bankers and Government officials at the time.

Short Sales Legitimate

Short sales *per se* were not criticised by this rule. At the time of the rule's enactment the members of the committee said that it was not the intention of the Stock Exchange authorities to put a ban on short sales as legitimate transactions. The merit or demerit of a short sale has been elaborately treated in economic discussions in the past and not much amplification is needed here.

It is quite generally accepted in this country and in foreign countries as well, that short sales, or sales for future delivery, are a legitimate transaction and an economic necessity. A paternal German Government tried to eliminate short sales on the Berlin Bourse with the disastrous and natural result that the greatest panic that country ever saw prevailed. Even the strong chain of German banks could not control a market that was wholly dependent upon buyers for the significant reason that when prices started on the toboggan new buyers refused to come into the market. Those who had the courage to purchase could not stand the sight of rapidly receding prices and they in turn joined the group of sellers. It is a historical fact that not until short selling was again permitted did the market become stabilized.

Why sales for future delivery are criticised in securities and are recognized as necessary as night follows day in commodity transactions and other business deals, is difficult to see. A peculiar process of psychology is probably the one and only answer. Who questions the right of a farmer to sell his corn now for delivery many months hence when he has not even the seed in the ground? Who is to be the judge whether this particular individual wishes to insure himself at a certain price obtainable now or believes that he can profit by a lower market when his corn is ready for delivery? Does the farmer only wish to be sure that he gets a certain price, or does this farmer think that he is an excellent judge of commodity conditions and that the price of corn a few months hence will be considerably lower?

Where is the basic difference between this sort of short sale and the one that sells securities? Certainly an individual has an equal right to attempt to forecast future conditions in any company's business and thus sell the company's securities with the hope of repurchasing them lower.

There are all kinds of "short interests" anyway. If, for example, a man is touring the Pacific Coast and suddenly decides for any reason that he must sell one of the securities in his safe deposit box in New York, he wires to his broker to sell the stock; he cannot wire permission to open his safe deposit box or furnish the key to this box immediately. This individual may continue his tour or may return to New York and then deliver the stock sold. In the meantime the price of the security may have advanced or declined, but this man is nevertheless a short seller, and he is one of the many that make up the "short interest."

When a man buys a security it is with the idea that he will ultimately profit from the increased business or extended activities of the company which the security represents. One is certainly privileged to use foresight as to the future demerits of a corporation as well as to its merits.

The rule was established not for the purpose of eliminating short sales in themselves but to prevent certain questionable transactions. If the object for legislating against short sales has passed, then the legislation has become obsolete and should be eliminated.

IMPORTANT DIVIDEND ANNOUNCEMENTS

To Obtain a Dividend Directly from a Company the Stock Must Be Transferred Into the Owner's Name Before the Date of the Closing of the Company's Books

Ann. Rate	Name	Amount Declared		Paid to Holders as of	Payable
	A				
7%	Allis-Chalmers, p ..	1¾%	Q	Mar. 31	Apr. 15
....	Allis-Chalm, p ext..	m¾%		Mar. 31	Apr. 15
6%	Am Agr Chem, p..	1½%	Q	Mar. 24	Apr. 15
8%	Am Agr Chem, c..	2 %	Q	Mar. 24	Apr. 15
$3	Am Bank Note, p..	75c	Q	Mar. 15	Apr. 1
$3	Am Bank Note, c..	75c	Q	Feb. 1	Feb. 15
$6	Am Beet Sug, p...	$1.50	Q	Mar. 15	Apr. 1
8%	Am Beet Sug, c...	2 %	Q	Apr. 12	Apr. 30
12%	Am Br Sh & Fdy, p	3 %	Q	Mar. 21	Mar. 31
7%	Am Br Sh & Fdy, c	1¾%	Q	Mar. 21	Mar. 31
7%	Am Can, p.........	1¾%	Q	Mar. 14	Apr. 1
7%	Am Car & Fdy, p.	1¾%	Q	Mar. 14	Apr. 1
8%	Am Car & Fdy, c.	2 %	Q	Mar. 14	Apr. 1
7%	Am H & L, p....	1¾%	Q	Mar. 15	Apr. 1
7%	Am Linseed, p.....	1¾%	Q	Mar. 15	Apr. 1
7%	Am Loco, p.......	1¾%	Q	Apr. 4	Apr. 21
5%	Am Loco, c.......	1¼%	Q	Mar. 18	Apr. 3
7%	Am Sug Ref, p....	1¾%	Q	Mar. 1	Apr. 2
7%	Am Sug Ref, c....	1¾%	Q	Mar. 1	Apr. 2
....	Am Sug Ref, c ext.	¾%		Mar. 1	Apr. 2
8%	Am T & T.........	2 %	Q	Mar. 14	Apr. 15
6%	Am Tob, p.........	1½%	Q	Feb. 15	Apr. 1
7%	Am Woolen, p.....	1¾%	Q	Mar. 17	Apr. 15
5%	Am Woolen, c.....	1¼%	Q	Mar. 17	Apr. 15
....	Am Wool, c ext..	xx10 %		Mar. 17	Apr. 15
5%	Associated Oil	1¼%	Q	Mar. 21	Apr. 15
5%	A, G & W I S S, p..	1¼%	Q	Mar. 10	Apr. 1
	B				
7%	Barrett Co, p.......	1¾%	Q	Mar. 31	Apr. 15
8%	Barrett Co, c.......	2 %	Q	Mar. 20	Apr. 1
8%	Beth Steel, 8% p..	2 %	Q	Mar. 12	Apr. 1
7%	Beth Steel, 7% p..	1¾%	Q	Mar. 12	Apr. 1
5%	Beth Steel, c A....	1¼%	Q	Mar. 12	Apr. 1
5%	Beth Steel, c B....	1¼%	Q	Mar. 12	Apr. 1
....	Beth Steel, c A ext.	1¼%		Mar. 12	Apr. 1
....	Beth Steel, c B ext.	1¼%		Mar. 12	Apr. 1
6%	Brooklyn Union Gas	1½%	Q	Mar. 15	Apr. 1
	C				
$7	California Pkg, p...	$1.75	Q	Mar. 15	Apr. 1
7%	Calif Pet, p........	1¾%	Q	Mar. 17	Apr. 1
....	Calif Pet, p ext...	bb2 %		Mar. 17	Apr. 1
4%	Can Pacific, p.....	2 %	S	Feb. 28	Apr. 1
10%	Can Pacific, c......	2½%	Q	Feb. 28	Apr. 1
12%	Chandler Motor ...	3 %	Q	Mar. 11	Apr. 1
8%	Chi & N W, p....	2 %	Q	Mar. 7	Apr. 1
7%	Chi & N W, c....	1¾%	Q	Mar. 1	Apr. 1
5%	C, C, C & St L, p...	1¼%	Q	Apr. 1	Apr. 21
7%	Cont Can, p.......	1¾%	Q	Mar. 20	Apr. 1
6%	Cont Can, c.......	1½%	Q	Mar. 20	Apr. 1
7%	Cuba Cane Sug, p.	1¾%	Q	Mar. 15	Apr. 1
7%	Cuban Am Sug, p..	1¾%	Q	Mar. 14	Apr. 1
10%	Cuban Am Sug, c..	2½%	Q	Mar. 14	Apr. 1
	E				
10%	Eastern Steel, c....	2½%	Q	Apr. 1	Apr. 15
4%	Elec Stor Bat, p...	1 %	Q	Mar. 17	Apr. 1
4%	Elec Stor Bat, c...	1 %	Q	Mar. 17	Apr. 1
	G				
6%	Gen Chem, p.......	1½%	Q	Mar. 18	Apr. 1
8%	Gen Electric	2 %	Q	Mar. 15	Apr. 15
7%	Goodrich, B F, p..	1¾%	Q	Mar. 21	Apr. 1
....	Gt N Ore Prop....	$2.00		Mar. 20	Apr. 9
	H				
$4	Haskell & Bark Cr.	$1.00	Q	Mar. 17	Apr. 1
7%	Helme, G W, p....	1¾%	Q	Mar. 15	Apr. 1
10%	Helme, G W, c....	2½%	Q	Mar. 15	Apr. 1
	I				
40c	Int Buth Ma Co....	10c	Q	Mar. 18	Apr. 1
$6	Int Harvester, c...	$1.50	Q	Mar. 25	Apr. 15
	J				
7%	Jewel Tea, p........	1¾%	Q	Mar. 20	Apr. 1
	K				
7%	Kayser, Jul, 1 p....	1¾%	Q	Apr. 21	May 1
7%	Kayser, Jul, 2 p....	1¾%	Q	Apr. 21	May 1
8%	Kayser, Jul, c.......	2 %	Q	Mar. 20	Apr. 1
6%	Kelly-Sprgf Tire, p.	1½%	Q	Mar. 17	Apr. 1
$7	Kresge, S S, p.....	$1.75	Q	Mar. 17	Apr. 1
7%	Kress, S H, p.....	1¾%	Q	Mar. 20	Apr. 1
4%	Kress, S H, c.....	1 %	Q	Apr. 19	May 1
	L				
$5	Leh Val R R, p....	$1.25	Q	Mar. 15	Apr. 5
$5	Leh Val R R, c....	$1.25	Q	Mar. 15	Apr. 5
	M				
4%	Mackay Cos, p.....	1 %	Q	Mar. 8	Apr. 1
6%	Mackay Cos, c.....	1½%	Q	Mar. 8	Apr. 1
$12	Marlin Rockwell ..	$1.00	M	Apr. 4	Apr. 11
8%	Mex Petrol, p.......	2 %	Q	Mar. 15	Apr. 1
8%	Mex Petrol, c.......	r2 %	Q	Mar. 15	Apr. 10
7%	M, St P & S S M, p	3½%	S	Mar. 20	Apr. 15
7%	M, St P & S S M, c	3½%	S	Mar. 20	Apr. 15
7%	Mont Power, p.....	1¾%	Q	Mar. 15	Apr. 1
5%	Mont Power, c.....	1¼%	Q	Mar. 15	Apr. 1
	N				
7%	Nat Biscuit, c.....	1¾%	Q	Mar. 31	Apr. 15
5%	N Y Central......	ss1¼%	Q	Apr. 8	May 1
$16	N Y Transit.......	$4.00	Q	Mar. 22	Apr. 15
5%	North Am Co......	1¼%	Q	Mar. 20	Apr. 1
	O				
50c	Okla Prod & Ref...	12½c	Q	Mar. 20	Apr. 2
$7	Owens Bot Mch, p.	$1.75	Q	Mar. 22	Apr. 1
$3	Owens Bot Mch, c.	75c	Q	Mar. 22	Apr. 1
	P				
7%	Pan Am P & T, p..	1¾%	Q	Mar. 15	Apr. 1
$5	Pan Am P & T, c..	r$1.25	Q	Mar. 15	Apr. 10
10%	Phelps Dodge	2½%	Q	Mar. 20	Apr. 2
8%	Pierce-Ar Mot, p...	2 %	Q	Mar. 17	Apr. 1
$12	Prairie Oil & Gas..	$3.00	Q	Mar. 31	Apr. 30
....	Prairie O & G, ext..	$2.00		Mar. 30	Apr. 30
12%	Prairie Pipe Line...	3 %	Q	Mar. 30	Apr. 30
....	Prairie Pipe L, ext..	5 %		Mar. 30	Apr. 30
	R				
$2	Reading, 2 p.......	50c	Q	Mar. 25	Apr. 10
7%	Rep Ir & St, p....	1¾%	Q	Mar. 20	Apr. 1
6%	Rep Ir & St, c....	1½%	Q	Apr. 21	May 1
	S				
7%	Sears Roebuck, p...	1¾%	Q	Mar. 15	Apr. 1
$1	Shattuck-Arizona ..	25c	Q	Mar. 31	Apr. 19
7%	Sloss-Shef St & Ir, p	1¾%	Q	Mar. 21	Apr. 1
6%	South Pacific	1½%	Q	Feb. 28	Apr. 1
8%	Swift & Co.........	2 %	Q	Mar. 10	Apr. 1
	T				
7%	Tob Prod, p........	1¾%	Q	Mar. 14	Apr. 1
....	Tonopah Belmont ..	10c		Mar. 15	Apr. 1
	U				
7%	Undwood Type, p..	1¾%	Q	Mar. 15	Apr. 1
8%	Undwood Type, c..	2 %	Q	Mar. 15	Apr. 1
4%	Union Pacific, p....	2 %	S	Mar. 8	Apr. 1
10%	Union Pacific, c....	2½%	Q	Mar. 8	Apr. 1
10%	United Fruit	2½%	Q	Mar. 20	Apr. 15
....	United Fruit, ext..	½%		Mar. 20	Apr. 15
$4	United Gas Imp....	$1.00	Q	Mar. 31	Apr. 15
$6	Utah Copper	$1.50	Q	Mar. 14	Mar. 31
	W				
7%	Ward, Montg, p....	1¾%	Q	Mar. 20	Apr. 1
7%	West Union Tel...	1¾%	Q	Mar. 20	Apr. 15
7%	Willys-Over, p.....	1¾%	Q	Mar. 20	Apr. 1
7%	Wilson & Co, p...	1¾%	Q	Mar. 24	Apr. 1
7%	W'lworth, F W, p..	1¾%	Q	Mar. 10	Apr. 1

bb—On account of accumulations; payable in Liberty Bonds.

ext—Extra dividend.

m—On account of accumulated dividends.

r—One-half cash and one-half in Liberty Bonds.

ss—Subject to approval of Director-General of Railroads.

xx—Payable in Liberty Bonds.

Financial News and Comment

Note.—The Railroad and Industrial Digest, Notes on Public Utilities, Oil Notes and Mining Digest, contain condensations of the latest news regarding the companies mentioned. The items are not to be considered officai unless so stated. Neither THE MAGAZINE OF WALL STREET nor the authorities for the various items guarantee them, but they are selected with the utmost care, and only from sources which we have every reason to believe are accurate and trustworthy. Investment commitments should not be made without further corroboration.—Editor.

Railroads

Chesapeake & Ohio Freight Rates Approved

Applications for increased freight rates on petroleum and petroleum products have been approved by the I. C. Commission.

St. Paul Authorized Signing of Contract

Directors voted to authorize the signing of the compensation contract with the Railroad Administration calling for an annual rent of about $28,000,000. President R. M. Calkins said after the meeting that the question of dividends had not been discussed.

Rock Island's Net for 8 Months $3,531,793

Corporate income account for the eight months ended August 31, 1918, showed a gross income of $10,627,900. Total deductions were $7,096,107, leaving a net of $3,531,793.

Erie Issues New Notes to Refund Old Ones

A new $15,000,000 issue of three-year 6% notes have been authorized to refund an annual amount of two-year notes maturing April 1, 1919. Holders of the maturing notes will have the privilege of exchanging them for the new notes at 98 and interest, a price which will bring a return of 6¾%.

It was stated that the War Finance Corporation stands ready to take any amount of the notes which are left after the exchange privilege is closed and after the public offering has been concluded. The price to the corporation will also be 98 and the funds will be used to pay off holders of the two-year 5% notes who elect to receive cash.

Illinois Central Plans $1,000,000 Additions

The erection of additions to the shops at Paducah, Ky., to cost in excess of $1,000,000 is being discussed. The work will include extensions to the machine shops, car repair sheds, engine house and other structures, with the installation of new equipment.

Lehigh Valley Loses Appeal

U. S. Supreme Court sustained the petition for damages resulting from the Black Tom explosion on July 30, 1916, the Court refusing to review the Federal Court's judgments granted to the N. J. Fidelity & Plate Glass Insurance Co. against the railroad. The judgment in this case amounts to about $23,000, but there are claims totaling nearly $12,500,000 made against the railroad, the outcome of a majority of which is said to depend upon the result of this case.

L. & N. Rental Will Equal 14% on Stock

Contract with Railroad Administration for $17,310,494 annual rental will leave, on the basis of 1917, other income and deductions about 14% for the stock. Louisville, Henderson & St. Louis with which a contract for $343,915 was approved at the same time, is controlled by L. & N. through stock ownership, and the rate computed on the

holding company's stock includes dividends from this source.

National Railways to Construct 700 Miles of Road—Orders 200 Passenger Cars

Manuel Aguirre Berlanga, Secretary of the Mexican Government, announces that construction is now in progress on about 700 miles of new lines of railway in Mexico. This work is being done at the joint cost of the Federal Government and the respective states traversed by the roads.

The Mexican Government has placed an order with American concerns for 200 passenger cars for the company, and it is expected that a large order for freight cars will also be placed.

New Orleans, Texas & Mexico Declares Interest on Income Bonds

Directors have authorized the disbursement of interest to the amount of 2½%, to be payable on the income bonds for the six months' period ending December 31, 1918. The interest is payable on and after April 1, 1919.

Pennsylvania Traffic Declines

Eastern lines on March 7 had 19,022 good order cars stored, and on March 3, 1919, had 259 locomotives in good condition stored. On March 1 there were out of use 187,980 freight cars of all kinds, so that over 10% of the entire equipment was represented by good order cars stored, while there were reported 13,124 bad order cars, making 32,146 cars out of use.

The number of bad order cars is abnormally high, and is partly due to the unusual conditions under which the railroads have been operated, due to press of traffic as the result of war conditions, and dilution of labor at shops, with resultant inefficiency.

Due also to reduction in traffic there has been a curtailment in number of employes. At present the number of employes on directly operated company "lines east" is 172,000, about 10,000 less than the number employed January 1.

Stockholders have authorized an increase of $75,000,000 in the indebtedness and also the acquisition of the Cumberland Valley Railroad. The directors already have authority to increase the indebtedness $46,000,000, so that this action will raise the total to $121,000,000.

Management has authorized the borrowing of $22,000,000, and the payment of that amount to the U. S. Railroad Administration, which in turn will apply the fund to the payment of vouchers for expenses incurred by the Government in operating the Pennsylvania System. The amounts are due for the purchase of fuel, materials and supplies and for expenditures for improvements and betterments.

St. Louis-San Francisco Declares Interest on Adjustment Bonds

Directors have declared the interest on the cumulative adjustment bonds for the six months ended December 31, 1918, at the rate of 6% per annum.

Payment will be made April 1, 1919, at the office of the company, 120 Broadway.

Southern Railway Bonds Extended

It is stated by J. P. Morgan & Co. that arrangements have been made by the Southern Railway, with the consent of the Director-General of Railroads, to offer to holders of $5,250,000 First Mortgage 5% bonds (of the South Carolina & Georgia R. R.), falling due May 1, 1919, the privilege of extending their bonds for ten years at 5½%. Holders of the maturing bonds will be offered the privilege of so extending their bonds and at the same time of receiving a cash payment of 2¼% so that the extended bonds will thus net approximately 5.80%. Holders who prefer not to extend will get par and interest at maturity.

Status of Texas & Pacific 2nd Mort. Bonds

Election of a new board of directors by stockholders of T. & P. is the first step in a plan to effect a financial readjustment and release of the property from receivership. A majority of the directors have affiliations with Missouri Pacific. Of Texas & Pacific's $25,000,000 second mortgage income bonds, Mo. Pac. owns $23,703,000. Although there is no question about the mortgage liability on account of the principal, the deed of trust, by means of loose phrasing, leaves it open to doubt whether the board must or may declare the interest payable when earned. Interest was earned on the bonds from 1890 on, but the obligation was not declared payable by the board until 1900. From that year until 1908 the interest was paid. If the court holds that it was mandatory with the board to declare the interest when earned, the railroad's liability would be nearly doubled, for about 100% of interest would be in default.

Wheeling & Lake Erie Asks Permission to Issue Bonds

Failure of Congress to grant the Railroad Administration an additional revolving fund is given as the reason in a petition to the Public Utilities Commission for authority to issue 987,000 of refunding mortgage 5% bonds. The bond issue is asked as an emergency measure and the Commission will hold a hearing on the matter at once.

Industrials

American Can Sells $12,000,000 Notes

Notes have been sold to the First National Bank to the amount of $12,000,000 which will be offered for subscription on a 6% discount basis. The notes are dated March 17, 1919, and will mature in equal installments in six, seven, eight and nine months.

American International Earns $7.44 a Share

For the year ended December 31, 1918, the net earnings, after charges and taxes, were $3,716,379, equivalent to $7.44 a share earned on the entire capitalization, as compared with a net of $3,746,122 or $7.49 a share in 1917. Surplus after divdends was $1,899,054.

American Malting Assets

There is now in the hands of the liquidating trustees of the company about $3,800,000 in cash and live assets. Of this $720,000 must be deducted to cover the $720,000 first refunding bonds of the company. This will leave net current assets of about $3,100,000. There are 70,000 shares of first preferred stock of which 65,000 are now on deposit with the preferred stockholders' committee.

The present calculation is that the live assets will give to the first preferred stockholders about $45 a share, plus their share resulting from the disposition of the plants yet to be sold. These plants are variously estimated at from $750,000 to $1,500,000.

American Sugar's Net $8,434,375

For the year ended December 31, 1918, the surplus after all charges, was $8,434,375, equivalent after preferred dividends to $11.74 a share earned on the $45,000,000 common stock as compared with the surplus of $8,212,787, or $11.25 a share in 1917.

Baldwin's Earnings Are Large

With respect to what is being done and what the prospects are for this year, a stockholder says: "The profits of the company thus far in 1919, according to official statements, are at a rate greater than shown in the annual report of last year. The officers are looking for an avalanche of orders before October, 1919, for new type product. I was fully informed as to the contract with Westinghouse, which is an extremely valuable one, protecting both parties against fluctuating costs of materials and labor. The electric department is growing steadily.

"The question of common stock dividends will be considered not later than May, 1919. This time is set partly because of the Federal tax piecemeal, and partly because the Baldwin inventory of $25,000,000 is being consumed at the rate of over $2,000,000 a month in the completion of orders on hand which will carry the works at capacity up until October, 1919.

Bethlehem's Net $15,930,390

Annual report for the year ended December 31, 1918, shows net income after war taxes and all charges, of $15,930,390, equivalent after deduction of dividends on the 8% preferred and the 7% preferred stock, to $21 a share on the total of $59,448,000 "A" and "B" common stock. This compares with net income of $27,320,737, or $43.20 a share earned on the common stock in 1917.

Chandler Shows Large Profits

Net for the year ended December 31, 1918, after depreciation, but before taxes, was $2,194,618, equivalent to $31.35 a share earned on the $7,000,000 capital stock as compared with net profits of $2,382,403, or $34.03 a share in 1917.

Distillers' New Company Has Good Prospects

Few U. S. Food Products shareholders know that their company is already an important producer of such articles as jams, jellies, Maraschino cherries, etc. In fact, it is understood that H. H. Shufeldt & Co., of Peoria, Ill. (which subsidiary is manufacturing these products), are already tens of thousands of pounds behind in their deliveries of these items. U. S. Food Products also expects to do well with a corn sugar or syrup widely used by confectioners, being produced at the alcohol distilleries, corn grinding machinery being used for the purpose. Yeast the U. S. Food Products is already manufacturing and marketing on a large scale through the Liberty Yeast Corp., which has a plant at Baltimore.

At present the foreign demand for alcohol is said to be restricted only by the nonavailability of ocean tonnage. Once the blockade is lifted and trade relations are resumed, there should be substantial exports to Germany, which country is an important alcohol user.

Rapid progress is being made in developing food products manufacturing which will be carried on in addition to the manufacture of commercial alcohol. One of the new products is called Malto, for which there is said to be a great demand.

Lackawanna Steel Earnings for January-February Sufficient for Dividend

Earnings of the company for the first two months of the current year were at a rate of more than sufficient to meet dividend requirements.

Operations however, are gradually being reduced. They are now almost down to

50% capacity and the company has but little business on its books, and faces further drastic reductions in operations unless there is a revival of demand soon.

Second quarter earnings likely to be poor.

Maxwell Motors Plans Merger

In connection with the merger of this company and the Chalmers Motor Corp. which is now being negotiated, it is learned that present plans contemplate a new corporation having two classes of stock, debenture and common.

The Chalmers plant has a capacity for turning out 30,000 cars per annum while Maxwell's production has been about 70,000 cars a year.

Saxon Plans Reorganization

The new plan calls for the organization of a new company capitalized with $2,000,000 6% bonds, $1,250,000 8% cumulative preferred stock and $3,200,000 common stock, par value $100. Under the plan the common stock would be placed in a voting trust for three years, with the right of extension for two more.

A banking syndicate has agreed to furnish additional capital by the purchase of bonds and preferred stock in the reorganized company if the present creditors will acquire the entire assets of the corporation in payment of their claims and will accept the common stock in payment for their indebtedness. The banking syndicate is to control the management and operation of the reorganized company for a period of from three to five years. The syndicate is to be paid in successive options upon the common stock. The syndicate is to have an option for three years upon $2,400,000 common stock at par, with an optional extension for two years.

It is stated that the direct liabilities have been reduced nearly $1,600,000 and large contingent liabilities eliminated. Present indebtedness is $2,400,000. Tangible assets exceed the indebtedness by $225,000.

Sloss-Sheffield's Net $1,972,071

Report for the year ended December 31, 1918, shows surplus after all charges and Federal taxes of $1,972,071, equivalent after preferred dividends to $15.03 a share on the common, as compared with a surplus of $2,152,373 or $15.78 a share in 1917.

Studebaker Curtailed Operations

In connection with the annual statement which showed $10.38 a share, President Erskine said in part: "Our commercial operations during the entire year were seriously curtailed because of the Government's urgent need of a large part of our plant facilities and the restricted supply of iron and steel. This enforced curtailment permitted us to produce only 18,270 automobiles, and 58,830 horse-drawn vehicles, of which latter about 50% were delivered on war contracts. Our war business was unattractive, netting us only 4.8% on sales.

"Our foreign connections and domestic branches sold several million dollars' worth of automobiles and vehicles for war purposes.

"The net increase in our plant and property account of $2,444,889 covers the erection of new buildings, the purchase of additional standard machinery at Detroit and at South Bend, including expenditures on the new plant.

"About one-third of this will be completed by December 31, 1919, and by February, 1920, it will be producing 3,000 cars per month.

"We have no stock of cars accumulated for spring business, and the present heavy demand is far beyond our productive capacity. The demand for horse-drawn vehicles is good, and we are back into steady production. Altogether, the business of the present year promises to be very satisfactory."

Texas Pacific Land Trust General Agent Makes Statement

General Agent Abrams said: "The excitement in regard to oil and gas discoveries in Texas continues with increased interest. The oil interests of the Trust are confined to the so-called Ranger field, the center of which is the town of Ranger in Eastland County. While we have never owned any land in that county, its holdings in the adjoining county of Palo Pinto are 6,761 acres, and in Stephens County 3,777 acres, and in both counties there is much so-called proven field and very considerable oil production.

"None of the company lands in Palo Pinto or Stephens counties has been sold or disposed of for a dozen years or more past; titles to same have not been parted with, in view of their enhancement in value by reason of possible discovery of mineral.

"All your lands in the said two counties, with the exception of 640 acres in Palo Pinto County, are covered by outstanding oil and gas leases. There is no oil production on any of the trust lands as yet; such wells as are being drilled on same have not reached a depth at which it is hoped or expected to find oil."

Virginia-Carolina Affected by Plan to Reduce Cotton Acreage

Due to the plan of Southern interests to reduce cotton acreage this year, buying of fertilizer for the cotton fields of the South is being curtailed, and the business of the company is reported to be less brisk than for some time.

Industrial Alcohol Will Purchase Dye Patents

Arrangements are being made to purchase all German dye patents from the enemy estates administrator, and the com-

pany will go mainly into the business of manufacturing dyes, and the alcohol business will be merely a by-product.

U. S. Steel Unfilled Orders Decrease

Unfilled orders on hand at the end of February were 6,010,787 tons, against 6,684,268 at the end of the previous month. This is a decrease of 673,481 tons. With the reduction of the steel prices it is hoped that new orders will come in more rapidly.

Opinion was expressed in some quarters that the agreement between the steel manufacturers and the Industrial Board of the Department of Commerce as to a minimum price for steel tore away the last shred of possibility that there would be any further prosecution of anti-trust cases. One, almost a dead issue, is still hanging over the corporation. The Government by establishing a minimum price has now apparently become a party to just the practices that it condemned in the past. It is understood that the legal aspects of the agreement were gone into deeply by attorneys for the steel men during the Washington conference on prices. Without some guarantees the steel manufacturers would hardly have consented to adopting the Redfield plan.

Willys-Overland Production Large

Production is gradually increasing, the output now being 400 cars daily. Shortly 600 cars a day will be reached.

Plans for 1919 call for an output of 180,000 passenger cars. This compares with an average production in 1916 and 1917 of slightly over 140,000.

Moline Plow, in which Willys-Overland owns the controlling interest, is now turning out 75 farm tractors a day. This is an increase of 25 over February production. Plans call for an output of 125 a day by July 1, 1919.

Wilson's Net $7,631,535

For the year ended December 28, 1918, net profits after charges and Federal taxes were $7,631,535, equivalent, after preferred dividends, to $34.49 per share on common stock, as compared with $6,504,422 or $32.52 per share in 1917.

Public Utilities

American Tel. & Tel. Compensation Fixed at $65,148,641

President Vail, in his annual report, said: "The compensation asked for the company from the Government was $70,422,700, and the amount granted was $65,148,641."

Boston Elevated Gross Increases 45%—Dividends of $1.25 per Share

February gross receipts from fares show the highest monthly percentage of gain yet recorded, 44.85%. Actual receipts from 8-cent fare were $1,978,635, which compares with $1,365,988 under a 5-cent fare in February, 1918. Final figures for January, 1919, showed 43.71% gain. Number of passengers carried during February, 1919, was 24,879,938, compared with 27,347,167 in February, 1918, a decrease of 9.02%.

A declaration of $1.25 on the common stock was declared, payable April 1. On January 2 a dividend of $2.50 a share covering the first six months of public operation was paid.

Dayton Power & Light President Expects Increase in Net

President E. M. Tait, in his 1918 annual report, said in part:

"The annual report of the company shows that the total kilowatt hour sales increased 30% over 1917, resulting in an increase in gross earnings of 29%, and an increase in net earnings of 25%.

"During the past year the company has completed and placed in operation 70 miles of high tension transmission lines, radiating north and south of the city of Dayton. This enlargement of the district has made possible the acquisition during the year of two additional municipal electric light plants, at Germantown, Montgomery County, and at Waynesville, in Warren County.

"While there has been a reduction in the electric output of the company since the closing down of purely war activities in the Dayton territory, the officers feel that the outlook for increasing business for 1919 is good and

estimates indicate that the year will show a substantial growth in gross and net earnings."

Interborough Cons. in Bankruptcy

As was to be expected, Interborough has been forced into bankruptcy. James R. Sheffield has been appointed receiver by Judge Mayer of the United States District Court. The Interborough Rapid Transit a subsidiary of I. B. C., is at present not earning its interest on the 5% bonds which were issued for subway construction and equipment purposes. The application for receiver was made by three bondholders of the Interborough-Metropolitan. The value of the property and securities owned by the Interborough Consolidated was placed at $120,380,139 in its report for the year ended December 31, 1918.

New York Railways in Receivership

Twenty-four hours before the Interborough went into bankruptcy, New York Railways announced going into receivership. A few days prior to this announcement John C. Cobb, of Boston, a director, announced at the N. Y. State Assembly hearing on the Carson-Martin Bill, which would vest in the Public Service Commission the right to increase fares, that he had been authorized by the company bondholders to foreclose on the property unless relief could be obtained. Mr. Cobb said no power could force the company to continue on confiscatory rates. He asserted the Second Avenue line could not even pay interest on receivership certificates. "Such a thing has never happened in this country," he continued. "The company has been in receivership since 1908. If we do not get relief we are going to quit."

Niagara Falls Power Declares Initial Dividend

An initial dividend of $1 has been declared on the common stock. The company has been increasing its earning capacity and from now on better results can be expected.

North American Reports Net of $1,604,074

For the year ended Dec. 31, 1918, the net income was $1,604,074 after interest and taxes, or $5.38 a share earned on the $29,793,300 capital stock against net income of $1,803,568 or $6.05 a share in 1917.

Application Made for Receiver for Philadelphia Railways

Watts & Stern, electrical contractors, have begun an action in Common Pleas Court, in behalf of themselves and other creditors asking that a receiver be appointed for this company. The plaintiffs allege that the company has not sufficient quick assets with which to pay its maturing obligations. They ask that a receiver be appointed to take charge of all the company's property, that an appraisement be made and that authority be given to prosecute all claims outstanding.

Oil Notes

Boone Oil Developments

Efforts are now being made to start drilling on the 4,500 acre lease in the new Homer field in Louisiana, where important developments are pending. Royal Dutch and other companies are in this field preparing to drill. Boone has taken an option on a 63 acre tract in Lee County, Kentucky, which has proven a sensation. The lease is surrounded by eight producing wells, and officials feel sanguine that they will have production with the first well. The company has closed a contract with a large oil company in Texas to drill three deep wells on its holdings in Palo Pinto County. This is to be done without any expense to Boone. The latter also receives royalty on anything brought in. A well being drilled by the Humble (controlled by Standard Oil interest) on the Boone acreage in Goose Creek, Texas, is expected to be brought in.

Commonwealth Petroleum Has Good Prospects

With the backing of Standard Oil interest, this organization has been formed with 178,000 shares of no par value. Development will proceed on an extensive scale on the 27,000 acres of proven oil land in Wyoming, California, Pennsylvania and West Virginia.

Western Union Oil Company, one of the three companies which have been taken over, owns a perpetual lease on 9,640 acres of proven oil lands located in the Santa Maria field, Santa Barbara, Cal., on a royalty of only 10%, which when acquired had 42 producing wells on the property, with a settled daily production of 2,400 bbls.

Under the direction of Dr. E. A. Starke, the geologist who laid out the Montebello field for the Standard Oil Company, and who for 20 years has been a leading geologist on the Pacific Coast, four new wells have been started by the new management on the Western Union Oil Company lands. According to Dr. Starke, production of this field can be doubled by drilling seven wells. Under his plans it is possible to increase producton to 10,000 barrels per day. On his estimates the Western Union should earn a net profit after operating expenses of $1,870,000 per year or equal to $10 per share on the entire capital outstanding. These figures are based upon oil at $1.50 per barrel, a price below that now current.

Gulf Production Brings in Ranger Well

On the Fincher Farm, near Breckenridge, Texas, in the northern end of the Ranger deep sands, drilling has been completed and the well is now producing 5,000 barrels per day. This is the best well in that territory.

Honolulu Oil Wins Decision in Land Suit

Suit brought by the Government to dispossess this company of 13 quarter-sections oil land in the Midway fields, Kern County, Cal., estimated to be worth $15,000,000, had been dismissed by the General Land Office at Washington.

Humble Oil Sells Stock to President of Standard Oil of N. J.

New stock to the amount of $4,100,000 recently authorized by the stockholders of the company, has been sold to W. C. Teagle, president of the Standard Oil Co. of N. J., for $17,000,000.

Under the terms of the sale Mr. Teagle obtained the new stock on a basis of $414.63 a share. It is stated that no change in control or in operating or administrative policy will be made in the company's affairs as a result of the purchase.

Plans of the company for future development include the building of a pipe line from the North Central Texas field to the Gulf Coast. The company has 250,000 acres of leases in this field. It is said that part of the money obtained by sale of the new stock will be used for building a refinery on the Houston Ship Canal.

Indian Refining's Surplus Equals $993,988

Surplus after Federal taxes and preferred dividends equalled $993,988, or $33.13 a share. This compares with $12.19 a share in 1917.

President Theodore L. Pomeroy, in his remarks to stockholders, said in part:

"Expenditures on the properties of the company during the year amounted to approximately $997,000, the greater portion of which was for additional tank car equipment. The outstanding capital liabilities have been reduced $1,202,800, and in addition thereto sinking fund assets have increased $61,600.

"At Dec. 31, 1918, the first mortgage bonds had been reduced to $463,000. The sinking fund at that date with the deposits required for the first three months of this year are sufficient to enable the company to provide for this entire obligation by April 1, 1919, and thereafter to call all outstanding bonds and cancel the mortgage.

"During the year all of the subsidary companies have been dissolved, the effect being to simplify records and to save unnecessary taxes, but making no other changes in the status of the company as a whole.

Lone Star Signs Government Contract

The Government, through Secretary of Navy Daniels, has signed a contract with this company, by which the natural gas which that company now obtains from the Petrolia field is to be used by the Government for the extracting of a non-inflammable balloon gas, known as Helium. The contract also provides for the laying of a new trunk natural gas pipe line from other West Texas fields to Fort Worth and Dallas, with branches to a number of smaller towns, all involving an expenditure of approximately $4,000,000.

Mexican Shipments Decreased

Shipments for February showed big falling off. There has been a gradual decrease from 1,651,000 barrels in November to 865,000 in February. Two influences are at work here—first, the increasing competition of other large Mexican producers and the slowing-down of industries. This reduces consumption. Under these circumstances, the recent high prices for stocks are regarded by good judges as unwarranted, as earnings will undoubtedly be adversely affected.

Ohio Oil's Well Larger Than Anticipated

The new well in Caddo Pool in Stevens County when finally gotten under control, proved to be bigger than was at first anticipated. It is producing about 10,000 barrels, and is partially pinched in. When opened wide it gauged 12,788 barrels in 24 hours. It is the largest well completed in Texas in some time.

Port Lobos Shipped 600,000 Barrels in February

With the loading of four more tankers during the last half of February, making eight in all for the month, the company will resume its place among the big shippers from the Tampico district.

Prairie Oil Experiences Difficulty with Labor

Because of dismissing workers in the Oklahoma oil fields for joining a union, the union has applied to the Department of Labor for assistance of a mediator. Commissioner of Conciliaton Rodgers has been assigned to the case.

Royal Dutch Ships to Mexico

Corona Petroleum, a subsidiary, has resumed export shipments from Mexico. The first cargo of 42,500 barrels is consigned to Suez. The international trade of the company has expanded to such an extent that it now surpasses its former peace business. Practically all its ships have become available, and the company is moving oil freely. Opening of the Suez Canal for general traffic has resulted in the company again operating its refinery in Egypt and in being able to move a large storage of oil kept at that refinery.

Standard of California Produces 22,446,021 Barrels

President Rheem said in part in his annual report: "Increase in business for 1918 reflects growth of population and commercial importance of Pacific coast states. This is fully demonstrated by the fact that in proportion of business, domestic, as against export in 1918 was practically the same as in 1917. Owing to increased production of 11,000 barrels a day, stocks of crude in California remained practically constant during the year.

"During 1916 plant account was increased by expenditures in amount of $10,863,679. The company drilled and completed 98 new wells, and purchased six last year. Gross production from company's wells was 22,446,021 barrels of crude, against 18,286,588 in 1917."

Standard of Ohio Builds Large Refinery

Initial investment in the refinery which the company will build will be $5,000,000. It will take about two years to build, and eventually may represent an expenditure of $50,000,000. Plans call for 24 crude oil stills, 80 pressure stills, 12 running stills and 12 to 24 other stills and many large steel storage tanks. Shipment of refined products will be by rail until huge slips in the bay are dredged. Material for the plant has been ordered and contracts are being let.

Texas & Pacific Coal & Oil Well Flows 14,000 Barrels

Norwood No. 1 well in the Ranger field has recently been brought in and is flowing better than 14,000 barrels daily.

Mining

Ahmeek Reduces Dividend

Directors have declared quarterly dividend payable March 31 of $1 as compared with the previous declaration of $2. In so doing it has followed the other copper companies who have been following a conservative policy.

Alaska Juneau to Issue Bonds

California Commissioner of Corporations has granted permission to issue $2,500,000 of first mortgage 7% bonds, which are to be issued for a period of 10 years, beginning March 15, 1919. Of the total $1,500,000 is to be used for funding the floating debt, and $500,000 for alterations and enlargements of the mill and to effect more extensive and economic operation.

Anaconda Cuts Dividend

The directors of the Anaconda Copper Mining Co. have reduced the quarterly dividend from $1.50 to $1 a share, thus placing the stock on a $4 annual basis. Up to three months ago the stock was paying $8 a year. At that time a cut of 50 cents was made in the quarterly disbursement. The reduction came as something of a surprise to the trading community, for the sales of copper have been heavy during the last week or ten days. In view of this it was anticipated that the dividend rate on the $6 basis might be maintained. The copper stocks had been firm up to the time of the announced cut in the dividend, but immediately thereafter became heavy.

No official announcement was made after the meeting as to why the dividend had been reduced. It is believed, however, that the company deemed it better to follow a conservative policy in disbursements, owing to the uncertainty which still prevails as to the demand for copper.

Arizona Commercial Obtains Injunction

Judge Braley of the Massachusetts Supreme Court, before whom suit was brought by this company against Iron Cap Copper Co., has issued an injunction restraining the Iron Cap from paying a dividend or otherwise disposing of its assets until settlement of the litigation.

Butte Copper & Zinc Shows $619,986 for 6 Months

Net income for six months ended Dec. 31, 1918, showed $619,986 after all expenses and taxes. Receipts were $669,328, other income $8,240, operating expenses and depreciation $57,582. After dividends a surplus of $319,986 remained.

Calumet & Hecla Passes Dividend

As a general surprise, came the announcement that the quarterly dividend had been passed. The previous dividend was $15 declared three months ago.

Output for February was 10,263,868 lbs., as against 11,758,500 in the prevous month.

Cerbat Silver Shows Development

Arrangements are being made to go ahead with the development of the Cerbat properties at Chloride, Ariz. These are equipped with a mill of 150 tons' capacity and building. A spur of the Santa Fe runs withn 1500 ft. of the shaft of the Elkhart Mine, and this will be extended some time before shipments of ore begin.

The Tennessee Schuykill which adjoins the Elkhart on the south is building a mill with 250 tons' capacity per day. This will give the Cerbat an outlet for some of its ore if it runs over its capacity of production at its own mill.

The property from now on will be under the personal supervision of H. Robinson Plate, well known mining engineer, president of Golden Gate Exploration Company.

The estimated amount of ore in underground workngs is valued at approximately $1,000,000. The market on the Curb is in the hands of Stock Exchange interests familiar with the handling of mining propositions in this class.

Chino Copper Produced 3,552,000 lbs. in February

Production figures for February were 3,552,000 lbs. of copper as compared with 4,241,000 lbs. in January. Production curtailment has been becoming more and more drastic and production is now upon a 50% of normal basis.

Consolidated Interstate Callahan Closes Down

For the first time in its history the properties have been closed down by reason of the existing dullness in metals.

Pres. John A. Percival, who has just returned from the property in Idaho, declares high producing costs and low prices were the causes for the current shutdown. He says:

"Shipping has been suspended, but development work is going on. About 300 men are affected.

"February was the best month we ever had in point of production. In that month 4,140,000 pounds of zinc, 1,848,000 pounds of lead and 21,350 ounces of silver were produced.

"Dividends will continue but will be cut."

Granby Cons. Reduces Production

The production for February which equalled 2,610,737 lbs. of copper was a reduction of approxmately 500,000 lbs. from the previous month's figures. The present stagnation of the copper market has made the curtailment of operations imperative and a decreased production should be looked for for some time to come.

Greene Cananea Produces 3,000,000 lbs.

Production for February equalled 3,000,000 lbs. of copper. This was the same amount as produced in the previous month. This is a curtailment of about 50% from maximum production.

Inspiration Production Costs Low

Copper costs in 1918 were around 9c and tonnage costs around 60c. These compare with copper costs a pound for Anaconda of around 15c, and more than $3.50 a ton of ore. Inspiration costs are rated as the lowest in the country.

Production for February was 6,600,000 lbs. against 6,500,000 lbs. in January.

Isle Royale Net $1,219,404

The annual report for the year ended December 31, 1918, showed net earnings of $1,219,404, which after $591,100 reserved for taxes, left $628,304, equivalent to $4.17 per share. This compares with net after taxes of $1,012,918, or $6.75 per share, in 1917.

The copper production in 1918 totaled 15,442,508 lbs. The company produced its metal for 16.51 cents per lb. The company received a price of 24.46 cents per lb. for its product.

Kennecott Pays 50c

On March 31, Kennecott will pay a quarterly dividend of 50c. as compared to a payment of $1 three months ago.

Stephen Birch, president of the corporation, made the following statement after the directors' meeting:

"In order to continue the development programs at our Alaskan and South American properties, the directors believe the best interests of their stockholders are being served by making a disbursement for the current quarter of 50 cents a share."

Production for February was equal to 5,292,000 lbs. as compared to 10,040,000 in January.

Magma Has Rich Ores

Those who know what is going on in this line say it is the richest mine in the world in copper, gold and silver. The vein increases in width the deeper it goes. It is 37 feet wide, and very rich at the 1500 foot level, but at the 1800 foot level it is reported to be five times as wide as the 1500 foot level. A diamond drill was put down 3500 feet, and the last 75 feet astounded the engineers when they discovered it was all in native silver. The three compartment shaft will be sunk 3500 feet. It is reported to be the intention of the management to mine silver while the price of copper is low.

Mohawk Valley's Net Equals $769,351

Operating revenue for the year ended Dec. 31, 1918, was $5,919,128, against $4,971,264 for the year before. Gross income amounted to $1,835,780. Balance available for dividends was $769,351, compared with $716,825 for 1917. After dividends had been taken care of, surplus aggregated $636,596.

Net for Osceola Cons. Equals $487,915

For the year ended Dec. 31, 1918, the total receipts were $3,997,884. Operating expenses aggregated $2,845,198, compared with $2,015,494 for 1917. Cost of construction was put at $55,156. Federal taxes amounted to $660,882, leaving a balance available for dividends of $487,915. Deficit totaling $473,585 was reported after the deduction of $961,500 for dividends.

Directors have declared a quarterly dividend of $1 a share, payable March 31, 1919. Three months ago $2 was paid.

Phelps-Dodge Cuts Out Extra

The quarterly dividend of $2.50 without an extra dividend has been declared, payable on April 2, 1919. In the two preceding quarters the extra dividend was $5.50. The cutting off of the extra dividend at this time is believed to be a reflection of the uncertain conditions prevailing in the copper industry. Sales have been light ever since the signing of the armistice, and the price of copper has steadily receded. Furthermore, cash is needed to carry the heavy stocks of copper which all of the large companies have on hand.

Superior Net for 1918, $46,480

The annual report for the year ended Dec. 31, 1918, shows net earnings of $46,480, or 46 cents per share, after reserving $5,300 for taxes.

Net current assets at the end of 1918 stood at $622,609, of which $505,538 represented cash. U. S. bonds and certificates of indebtedness.

United Verde Dividend 50c

Dividend of 50 cents, payable May 1, 1919, to stock of record April 7, was declared.

Three months ago an extra dividend of 25 cents also was paid. The extra dividend was not declared this time, due to the unsettled conditions of the copper industry, it was announced.

28,000,000 lbs. of unsold copper are on hand or the same as at Jan. 1, 1919.

Not a pound has been added to production since Feb. 14, when the mine and smelter closed down as employees, refusing to accept a wage reduction, went out on strike.

Utah Cons. Omits Dividend

Directors took no action on the quarterly dividend due this month. Three months ago a dividend of 25c. was paid.

Utah Copper Produces 10,350,000 lbs.

Production for February equalled 10,350,000 lbs. At this rate, production has decreased 40% within the last 7 months.

Smelters Net $7,707,498

For the year ended Dec. 31, 1918, net earnings were $7,707,498 after all charges and taxes, as compared with $18,495,625 net income for 1917, a decrease of $10,788,126. After preferred dvidends the balance available for the $60,998,000 common stock was equal to $5.67 a share, against $22.59 a share in 1917.

Pres. Simon Guggenheim, in his annual report, said in part:

"In addition to the plant previously owned, we have constructed five new plants, and have acquired the Baltimore copper refinery.

"At the present time several members of the Board of Directors are making an examination in person of the company's properties in Mexico. These properties are of great promise, only awaiting more settled political and economical conditions, in order to produce 2,500,000 tons of ore per annum.

"All the smelters of the company in Mexico are now operating except that at Velardena."

Unlisted Notes

Marconi's Net $711,841

Report for the year ended December 31, 1918, showed a surplus after charges of $711,841, equivalent to 35c a share. This compares with 30c a share earned in 1917. The ship and coastal stations, including 330 ship sets and 45 Marconi stations have been sold to the Government for $1,450,000, and the rental contracts covering these ships have terminated. The company charged each vessel $1,000 per annum for the rental of its equipment. During the war a deduction of $60 per annum was made for any vessel upon which the apparatus was maintained by the Navy Department.

The annual report shows a good financial position, and with the transoceanic business constantly growing, indications point to increasing earnings despite the loss of the coast to ship business.

Connections by wireless telephone have recently been made from Ireland to Canada by Marconi. This is an important achievement to the scientific world. Efforts are being made to connect the inland portions of the United States with the eastern hemisphere, and indications are that it will not be a long time hence when this feat will be accomplished. The business of Marconi should increase materially with the accomplishment of this feat.

Keystone Declares a 15% Stock Dividend

Directors have declared a stock dividend of 15%, payable May 20, 1919, to stock of record of May 1.

National Aniline Shows $6 a Share

In the year ended December 31, 1918, the company reported earnings of $4,029,000, after allowing $8,800,000 for depreciation and Federal taxes. This was equivalent to $6 a share on 395,990 shares of common stock of no par value, after allowing for 7% dividends on $23,524,700 preferred stock.

This compares with net earnings in the seven months of 1917 dating from organization, of $3,000,000, or $5 a share of the common stock, after preferred dividends.

National Aniline is the largest unit in the American dye industry and manufactures 106 dyes out of a total of 180 produced by American manufacturers. It makes thirty-eight products which are not made by another American producer.

A dividend of 1¾% quarterly was declared on the preferred stock, payable April 1. This preferred issue is a strongly secured one and offers excellent possibilities. The control of the company vests in the Barrett Co., Semet-Solvay Co. and another large corporation.

National Ice Expects Big Season

Officials are looking forward to a busy summer season supplying the trade with ice. The mild winter has resulted in the practical elimination of the natural ice crop with the result that a shortage of ice seems certain next summer.

To help meet this situation the company is rushing the construction of two artificial plants in New York City with a daily capacity of 200 tons, which are expected to be ready for operation early in June, 1919.

Submarine Boat Launches Two More Boats

With launching of two more vessels March 12, from its Port Newark yards, the corporation has sent down the ways 30 of the 150 vessels of 5,500 tons which it has contracted to build for the Government. To date only one ship has been accepted.

Annual meeting brought out that plans have been developed for an engine of the Diesel type. Officials state that such an engine would find a ready market, and that an extensive business will be developed in the next few years.

It was stated that many of the difficulties encountered during the last few months in the building of the 5,500-ton cargo vessels for the Government had been overcome, and that the profits therefrom will be satisfactory.

In the neighborhood of $15,000,000 is due the company from the Government.

Production plans call for the turning out of ten to twelve large cargo vessels a month.

More efficient plans are in operation at the Port Newark plant, and it is understood that shipping costs a ton are almost $75 less than those at the Hog Island plant.

United Profit Sharing Earns $211,525

Report for year ended December 31, 1918, shows net profit of $211,525, against $241,106 for 1917. The profits were equal to 13 cents a share on $409,537 capital stock of a par value of 25 cents, compared with 15 cents a share in 1917.

Recent elections to the board of directors seem to indicate a closer relationship with the United Cigar Stores of America. A number of those elected are at present serving on the UCS board. It may sooner or later mean the assimilation of United Profit Sharing.